

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

COMMUNITY PLANNING AND DEVELOPMENT

COMMUNITY DEVELOPMENT BLOCK GRANTS

PROGRAM HIGHLIGHTS

	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004	INCREASE + DECREASE - 2004 vs 2003
	(Dollars in Thousands)			
<u>Program Level:</u>				
Community Development Block				
Grants (CDBG) obligations	\$7,755,965	\$5,543,279	\$4,767,000	-\$776,279
<u>Appropriations:</u>				
Enacted or Proposed				
CDBG	7,000,000 <u>a/</u>	4,731,500	4,732,000	500
Supplemental	783,000 <u>b/</u>	NA	NA	NA
Transfer of Unobligated				
Balances	[700,000] <u>c/</u>	NA	NA	NA
Subtotal	7,783,000	4,731,500	4,732,000	500
<u>Budget Outlays (Gross):</u>				
CDBG	5,428,857	6,650,320	6,129,440	-520,880
<u>SECTION 108 LOAN GUARANTEES:</u>				
Guarantee Commitments (Private Financing) :				
Limitation	[608,696]	[275,000]	[...]	[-275,000]
Commitments made	310,974	390,000	183,000	-207,000
<u>Budget Authority</u>				
Credit Subsidy	14,000 <u>d/</u>	6,325	...	-6,325
Aministrative Costs	<u>1,000</u>	<u>1,000</u>	...	<u>-1,000</u>
Subtotal	15,000	7,325	...	-7,325
<u>Budget Outlays</u>				
Credit Subsidy	5,491	6,000	7,000	1,000
Aministrative Costs	<u>1,000</u>	<u>1,000</u>	...	<u>-1,000</u>
Subtotal	6,491	7,000	7,000	...
FFB Direct Loans (Liquidating Account)				
	16,641 <u>e/</u>	...	...	...

a/ Includes \$2 billion appropriated in P.L. 107-117 for recovery from the terrorist attacks in New York.

b/ \$783 million was appropriated in P.L. 107-206 for recovery from the terrorist attacks in New York.

c/ Funds appropriated in fiscal year 2001 were transferred into CDBG in fiscal year 2002 pursuant to P.L. 107-38 and P.L. 107-73 for recovery from the terrorist attacks in New York.

d/ There were obligations of \$7.152 million out of this amount, and the remainder of this 2 year budget authority carried over into fiscal year 2003 and will be obligated.

e/ Disagrees with outlays reported in the fiscal year 2004 President's Budget by \$4 million.

Community Development Block Grants

SUMMARY OF BUDGET ESTIMATES

Community Development Block Grants. The Budget proposes \$4.7 billion for the overall Community Development Block Grant (CDBG) account. This amount includes the formula grant program plus the other programs funded within this account in fiscal year 2004. Funding includes \$4.4 billion for the CDBG Entitlement and State/Small Cities (Nonentitlement) formula grant program and \$296 million in set-asides. The overall fiscal year 2004 funding request remains approximately at the same as the Administration's fiscal year 2003 Budget request. The formula program is the same as the fiscal year 2003 amount including a transfer of \$7 million for Insular Areas, formerly funded in Section 107.

The Department is currently analyzing the impact of 2000 Census data on the CDBG program and whether any changes to the existing formulas would be appropriate. Since the Department's formula study will not be completed until this fall, the scope and nature of these changes cannot be identified at this time.

A summary of the fiscal year 2004 request is as follows (a comparison chart for fiscal year's 2002-2004 is at the end of this section):

- \$4.4 billion for the CDBG Formula program, including \$3.1 billion for Entitlement cities and counties, \$1.3 billion for State/Small Cities (Nonentitlement), and \$7 million for Insular Areas;
- \$72.5 million for the Native American CDBG program;
- \$37.9 million for Section 107 grants, including \$3 million for Technical Assistance, \$3 million for Program Management and Analytical support, and \$31.9 million for University/Community Partnership Grant Programs: \$10 million for Historically Black Colleges and Universities (HBCUs), \$3 million for Community Development Work Study (CDWS), \$5.5 million for Hispanic-Serving Institutions Assisting Communities (HSIAC), \$2.4 million for Alaska Native/Native Hawaiian Institutions Assisting Communities Program, \$3 million for Tribal Colleges & Universities, and \$8 million for Community Outreach Partnership Centers (COPC);
- \$65 million for Youthbuild;
- \$16 million for the Colonias Gateway Initiative;
- \$65 million for the Self-Help Homeownership Opportunity Program, including \$3 million for Technical Assistance;
- \$25 million for Capacity Building for the National Community Development Initiative (NCDI);
- \$4.5 million for Habitat For Humanity-Capacity Building;
- \$3 million for the Housing Assistance Council;
- \$2.2 million for the National American Indian Housing Council; and
- \$4.9 million for transfer to the Department's Working Capital Fund for IT development.

Section 108 Loan Guarantees. No funding is requested for the Section 108 Loan Guarantee program in fiscal year 2004. The Administration believes that other Federal programs address the objectives of the Section 108 program, which has been under utilized compared to authorized levels in recent years.

Community Development Block Grants. CDBG funds are provided to entitlement cities, urban counties and States based on the highest of two formulae. Funds may be used for a broad range of housing revitalization, community and economic development activities, thereby increasing State and local capacity for economic revitalization, job creation and retention, neighborhood revitalization, public services, community development and renewal of distressed communities, and for leveraging of non-Federal sources. Formula allocations will be adjusted to reflect 2000 census information as it becomes available. New population data was included for 2002; housing and poverty data will be included in 2003. As new Census data are incorporated, funding for grantees will shift. Almost 90 percent of CDBG funding lost will come from communities with poverty rates above the national average. The Administration is reviewing the impact of 2000 Census data on CDBG and will develop proposals for reform as appropriate.

CDBG is a primary vehicle for the revitalization of our Nation's neighborhoods, providing opportunities for self-sufficiency to millions of lower income Americans. Since the program's inception in 1974, roughly \$100 billion has been allocated to grantees. There are currently 865 cities and 159 counties that are eligible to receive a CDBG entitlement grant directly from HUD. In addition, 49 States and the Commonwealth of Puerto Rico award more than 3,000 CDBG grants to small cities and counties from CDBG funds allocated to the States by HUD each year. Nonentitlement grants are awarded by HUD to Hawaii's three nonentitlement counties on a formula basis.

CDBG is generally recognized as the flagship or mainstay for targeted community development of cities, counties and rural areas to principally benefit low- and moderate-income persons. In a March 2002 report to the Appropriations Committee, the Department reported that 78 percent of all CDBG expenditures directly or indirectly benefited low- and moderate-income persons. For activities designed to benefit low- and moderate-income persons, 84 percent of the funds expended directly or indirectly benefited low- and moderate-income persons. CDBG strikes an appropriate balance between local flexibility and national targeting to low- and moderate-income persons. It has developed this reputation over 28 years. Local officials constantly use CDBG funds to take on new challenges in the areas of housing, neighborhood development, public facilities, economic development and provision of social services. However, the funds for the program continue to be stretched further and further.

A cornerstone of the CDBG program has been that it allows grantees to set their own priorities for the funding of activities. Grantees may use the funds for housing activities, economic development, public facilities (such as day care centers or health centers), public improvements (such as street improvements), public services (such as social programs for the elderly, youth, or abused), urban renewal, or planning and administration.

The CDBG program emphasizes the Department's mission and vision of working through partnerships with State and local governments. Because of the significant flexibility in uses of CDBG funds, the CDBG program is used in conjunction with many other HUD programs in a systematic approach to assist communities and target specific populations. Notwithstanding the flexibility of the program, rehabilitating and producing housing is the largest single use (approximately 31 percent) of funds by Entitlement communities. Housing activities include rehabilitation of ownership and rental units, assisting new construction, transitional and temporary housing, as well as necessary site improvements and administrative assistance. The second largest use of funds is approximately 25.6 percent for public facilities and improvement.

Timely Expenditures. One management concern for CDBG has been the untimely expenditures of funds by some grantees. The Department has made significant improvements in reducing the number of untimely grantees (defined as undrawn funds exceeding 1.5 times the value of the most recent grant) and the dollars associated with those numbers. HUD has aggressively pursued this issue and has made significant progress. The number of untimely grantees has been reduced from a high of 309 to fewer than 50. This has resulted in a reduction in the amount over the standard from \$364 million in September 1999 to \$75 million in June 2002. By the end of fiscal year 2003, HUD expects that the only grantees who are untimely are those who become so during that year. HUD's aggressive policy requires every grantee to become timely before its next review or risk losing unspent funds.

As part of this effort, the Department's fiscal year 2003 Budget proposed a legislative change that would also require the State programs to be reviewed for timely expenditures. If this proposal is not enacted in fiscal year 2003, it will be resubmitted for fiscal year 2004. Currently, the HCDA of 1974 at section 104(e) requires HUD to review entitlement grantees to determine if they are carrying out their activities in a timely manner. The same provision requires HUD to review States to determine if they have distributed funds to local governments in a timely way and for States to review their local governments to determine if the local governments are carrying out their activities in a timely way. It does not however require HUD to review the State program to determine if they are *expending* funds in a timely way. This proposal would add a requirement that HUD review the States program to determine if they are managing the program in a way to ensure that funds are expended timely. This addition is needed to clearly give HUD the authority to take action when necessary to ensure that funds do not build up to unreasonable amounts.

Indian CDBG program. In 1977, the Housing and Community Development Act of 1974 was amended to provide a special funding mechanism, the Indian Community Development Block Grant (ICDBG) program, for Native American communities. Since 1978, more than \$750 million has been provided for ICDBG funding. This Budget proposes \$72.5 million for Native American Housing and Economic Development Block Grant activities. Since 1974, the program has been the backbone of improvement efforts in many communities, providing a flexible source of grants funds for local governments nationwide. The program provides funds that they, with the participation of local citizens, can devote to a wide range of activities that best serve their development priorities, provided that these projects either: (1) benefit low- and moderate-income families; (2) prevent or eliminate slums or blight; or (3) meet other urgent community development needs.

Community Development Block Grants

ICDBG funds are distributed as annual competitive grants. Funds are allocated to each of the six Area Offices of Native American Programs (AONAP), so applicants compete for funding only with other tribes or eligible Indian entities within their area. Eligible Activities: ICDBG funds may be used to improve the housing stock, provide community facilities, improve infrastructure, and expand job opportunities by supporting the economic development of the communities, especially by non-profit tribal organizations or local development corporations. Tribes and Alaskan Native Villages are restricted from using block grants for construction or improvement of governmental facilities, government operations, income payments, or unless extraordinary determinations have been made for new housing construction.

The ICDBG program is authorized by section 106(a) of the Housing and Community Development Act of 1974, as amended (42USC 5301ff). Regulations are found at 24 CFR Part 1003. The Office of Public and Indian Housing, and the Office of Native American Programs (ONAP) administer it. All Federally recognized Indian Tribes and Alaskan Native Villages are eligible to participate in the ICDBG program. Projects funded by ICDBG must primarily benefit low- and moderate-income persons (generally defined as members of low- and moderate-income families that earn no more than 80 percent of the median income in the area).

Section 107 grants. A total of \$37.9 million is included in this Budget proposal for programs under Section 107 of the Housing and Community Development Act for the following programs:

- \$3 million for Technical Assistance;
- \$3 million for Program Management and Analytical Support;

University/Community Partnership Grant Programs:

- \$10 million for Historically Black Colleges & Universities (HBCUs);
- \$3 million for Community Development Work Study (CDWS);
- \$5.5 million for Hispanic Serving Institutions Assisting Communities (HSIAC);
- \$2.4 million for Alaska & Hawaiian Serving institutions;
- \$3 million for Tribal Colleges & Universities; and
- \$8 million for Community Outreach Partnerships Centers (COPC).

Insular Areas. This Budget proposes approximately \$7 million for Insular Areas. A legislative change was proposed in fiscal year 2003 to move the authorization for providing funding for Insular areas from Section 107 to Section 106 (formula funding) of the CDBG authorization. If this is not enacted in fiscal year 2003, it will be resubmitted in fiscal year 2004. In addition, the proposal would establish funding at a percentage of the amount available for formula grantees. Funding Insular Areas in Section 106 would allow for the Insular areas to have statutory assurance of continued funding and would bring them in line with other CDBG grantees. In their present authorization status, Insular areas are the only CDBG grantees that do not have statutory assurance of continued funding. Insular areas that have been funded include the Virgin Islands, American Samoa, Guam, and the Commonwealth of the Northern Marianas.

Technical Assistance. This Budget requests \$3 million for Technical Assistance (TA). Technical Assistance is a vital component to the CDBG program. TA projects have assisted States, communities, and Native American tribes in planning, developing and administering Title I assistance. In fiscal year 2004, TA will be used consistent with the Department's Strategic Goals. This includes new homeownership assistance, affordable housing, timely expenditure of funds, particularly by states, training programs for grantees staff to ensure better understanding of accountability requirements, data enhancements, faith-based community groups, energy enhancement, and meeting lead-based paint safety requirements.

In addition, some of these funds will be used to implement any revisions to the Consolidated Plan Improvement Initiative, as required by the President's Management Agenda. HUD's charge is to streamline the Consolidated Plan and make it more results-oriented and useful to communities in assessing their own progress in addressing the problems of low-income areas. This project is currently underway. The TA program enables the Department to provide assistance both directly and through contractors in the following areas:

- increasing grantee effectiveness to plan and implement Title I assistance; this effort will emphasize improving the timely obligation and expenditure of funds and will contribute to reducing the number of jurisdictions with over balances;
- improving the economic development potential of governmental units and increasing the participation of the private sector in community and economic development assisted under Title I;

Community Development Block Grants

- leveraging non-Title I funding sources in the use of Title I assistance; and assisting in special areas, such as:
- Homeownership;
- Faith-based initiatives;
- Colonias and other especially distressed populations;
- Lead safe housing; and
- Local performance measurement.

The CDBG program has not received any funding for Technical Assistance in the past 3 years and there is increasing pressure for this funding from CDBG grantees because of considerable staff turnover at the local level that presents a compelling need for CDBG training. This request will provide for community development and job creation training for localities and capacity building (including operating and project costs) of neighborhood-based and community development organizations and nonprofits that wish to participate in local community development.

Program Management and Analytical Support. This Budget requests \$3 million for Program Management and Analytical Support to identify and analyze local and national needs, assess program performance and provide localities and other community members with the necessary guidance to plan and track performance. These funds will specifically assist metropolitan cities, urban counties, consortia, and States in preparing information to be submitted to HUD, and will be used for the analysis and evaluation of that data. The funds will be used for operational support work:

- to develop and maintain a web site containing programmatic guidance and system information for grantees to ensure that grantees are meeting statutory and regulatory requirements of CPD programs;
- to extract information from IDIS and other sources and analyze that information to measure and analyze costs; to assess program performance, services delivered, and beneficiaries; and to identify, delineate, describe and assess issues on community development programs and policies. CPD will identify, collect, and analyze quantitative and qualitative information and prepare written assessments. The Department's data efforts will expand our performance monitoring and reporting capability for Government Performance and Results Act purposes. Improving the economic development potential of governmental units and increasing the participation of the private sector in community and economic development assisted under Title I; and
- to conduct system data purification campaigns necessary to advance data collection related to performance measurement.

University/Community Partnership Grant Programs. This Budget requests \$31.9 million for University programs/Community Partnership Grant Programs. HUD currently provides grants to universities under six programs: Historically Black Colleges and Universities (HBCU), Community Development Work Study (CDWS), Hispanic-serving Institutions Assisting Communities (HSIAC), Alaska & Hawaiian Serving Institutions, Tribal Colleges & Universities, and the Community Outreach Partnership Centers (COPC) programs. Funds are used for a work study program and to assist institutions of higher education in forming partnerships with the communities in which they are located to undertake a range of activities that foster and achieve neighborhood revitalization.

Below is a brief description of each program:

- Historically Black Colleges & Universities (HBCUs). For fiscal year 2004, a total of \$10 million is being requested for funding under this program. The HBCU program has provided funding to HBCU's since 1980, to assist HBCU's in expanding their role and effectiveness in addressing community development needs in their localities, including neighborhood revitalization, housing, and economic development.
- Community Development Work Study (CDWS). For fiscal year 2004 the Budget proposes \$3 million for the CDWS program. There is a large, untapped source of students for this program, i.e., minority institutions, that only recently began applying for CDWS grants. With additional outreach a greater number of minority and economically disadvantaged students can be attracted into the program. The program is designed to attract more minority and disadvantaged students to academic programs in community planning and development.

- Hispanic Serving Institutions Assisting Communities (HSIAC). The Budget proposes \$5.5 million for the HSIAC program. An earlier budget (2003) reflected what was perceived as a lack of interest on the part of Hispanic-Serving institutions in this program. However, an aggressive outreach program in 2002 resulted in a 60 percent increase in the number of applications for the 2002 cycle of funding. A proposed change in program policy, removing the public service cap, will make the program even more attractive to Hispanic-Serving institutions. The program is designed to help Hispanic-Serving colleges and universities expand their role and effectiveness in addressing community development needs. We also anticipate an increase in Hispanic-Serving Institutions, providing a growing pool of applicants.
- Alaska & Hawaiian Serving Institutions. The Budget proposes \$2.4 million for the Alaskan Native/Native Hawaiian Institutions Assisting Communities (AN/NHIAC) program. This program is designed to assist Alaska Native/Native Hawaiian institutions of higher education expand their role and effectiveness in addressing community development needs in their localities. AN/NHIAC grantees carry out projects designed primarily to benefit low- and moderate-income residents, help prevent or eliminate slums or blight, or meet and urgent community development need in the community where the Alaska/Native Hawaiian institution is located.
- Tribal Colleges & Universities. This Budget includes \$3 million in competitive grants to tribal colleges and universities to assist them in building, renovating, expanding, and providing equipment for their own facilities, including those that serve these communities.
- Community Outreach Partnerships Centers (COPC). A total of \$8 million is being requested in this Budget proposal for the COPC program. The COPC program provides grants to encourage institutions of higher education to join in partnership with their communities. The Budget describes an increase in past funding, reflecting a greater interest on the part of colleges and universities in community outreach. Greater numbers of applications from minority institutions and community and junior colleges speak to this increased interest. There is also greater emphasis being placed on service learning as a tool to bring the resources of the campus to the community.

Youthbuild. The fiscal year 2004 Budget requests \$65 million for the Youthbuild program. This program is authorized by Section 164 of the Housing and Community Development Act of 1992 (P.L. 102-550), which amended Title IV of the Cranston-Gonzalez National Affordable Housing Act by adding subtitle D, "HOPE for Youth: Youthbuild."

Youthbuild is a key tool to making welfare reform work by enabling low-income youth to make a successful transition from dependency to work. The Youthbuild program, which is targeted to 16- to 24-year old high school dropouts, provides disadvantaged young adults with education and employment skills through rehabilitating and constructing housing for low-income and homeless people. The Youthbuild program has been successful in encouraging at-risk and adjudicated youth to engage in remedial education, including leadership and skills training. The program also furthers opportunities for placement in apprenticeship programs and gainful employment.

Approximately 3,728 youth will have been trained and 1,533 units of housing will be developed under the fiscal year 2002 program. However, HUD received 360 Youthbuild applications and only 115 of these were funded. The fiscal year 2004 request for \$65 million will provide more than 3,728 young people with skills they need to obtain jobs. This demand for resources reflects an unmet need in communities that are trying to provide greater opportunities for at-risk young adults. Therefore, HUD is targeting the available funding to the most at risk communities. HUD is also focusing on the Youthbuild program as a way to foster the development of nonprofit organizations which over time can provide the services mentioned above to disadvantaged youth and which at the same time rely less on HUD's financial support to carryout these activities. Youthbuild is one program that the Office of Management and Budget (OMB) is analyzing to develop a uniform cost-effectiveness tool to measure the relative performance of Federal housing programs with similar functions and purposes.

Youthbuild effectively reaches one of the most difficult to serve populations: undereducated, and/or adjudicated, unemployed young adults. According to data compiled by Youthbuild USA in 2000, approximately 82 percent of students enter the program without a high school diploma or GED and nearly 31 percent are on public assistance. Slightly over 40 percent of students have been adjudicated and an estimated 12 percent have been convicted of a felony. The issues that the young people are facing--poverty, broken homes, alcoholism and drug addiction, welfare and crime--are common across racial lines and among both men and women. The Youthbuild strategy effectively addresses these issues, in both rural and urban areas across the United States, by providing an alternative. An estimated 63 percent of participants enrolled in the Youthbuild program graduate, and over 86 percent of graduates attain placement in jobs or in school.

Community Development Block Grants

The amendments to the Minimum Wage law enacted in 1996 encourage the hiring of at-risk youth by making the Work Opportunities Tax Credit available to employers who hire these young people. Youthbuild programs market this tax credit to encourage employers to hire Youthbuild graduates in their businesses, thereby helping to break the cycle of poverty and enabling at-risk youth to become contributing members of society.

Colonias Gateway Initiative (CGI). The fiscal year 2004 Budget proposes continuing funding of \$16 million for the Colonias Gateway Initiative (CGI) proposed under the fiscal year 2003 Budget. This legislative proposal, HR 5654, was introduced in October 2002 and will be resubmitted in fiscal year 2004 if it is not enacted in fiscal year 2003. CGI is proposed at \$16 million per year with no increases or decreases and sunsets in 7 years. The CGI is a regional initiative, focusing on the 1,500 mile stretch of Southwest border where the more than 12 million individuals live. The Colonias are characterized by substandard housing, lack of availability of basic infrastructure services and public facilities, little socioeconomic data, weak implementation capacity of intermediaries working on housing and economic development initiatives, and little focus on cost recovery and financial sustainability.

The goal of CGI is to create sustainable economic development and to enhance the outreach, effectiveness and sustainability of housing, infrastructure and economic development undertakings in the Colonias. It will do so by: (1) improving the coordination of existing Federal Government programs, (2) forging partnerships with the private sector and (3) building the capacity of local Colonias organizations to develop, maintain and fund community assets.

The program is regionally and locally driven with resident input into the processes utilized to create housing, create investments that can be leveraged, and strengthen partnerships that will have the capacity to sustain continued improvements in the areas and neighborhood communities.

Eligible Recipients. Monies will be allocated to the regional organization designated to administer CGI to utilize for start up seed monies to get CGI underway. Administrative costs are targeted to be minimal however; periodically they will submit a workplan to the advisory board, for its review and approval. Based upon that approval, HUD will review the workplan to ensure compliance with CGI's governing statute and execute a grant agreement to support that plan. It is not envisioned, however, that HUD will be involved in shaping the specific elements of the workplan. The work plan will target specific activities and groups to receive monies for housing, infrastructure, information development, and investments.

Allocation of Funds. The requested \$16 million will be distributed to a regional organization or organizations in each of the four relevant States: California, New Mexico, Texas, and Arizona. Criteria for competitive selection of the governing regional organization will be developed and include several factors, such as the extent to which the activities proposed in the application:

- create housing, generate employment and permanent jobs accessible to the colonias people;
- complement other HUD programs to operate as a specific initiative without duplication of other government efforts;
- involve coordination of Federal, State and local public and private (including nonprofit) resources; and
- use private resources to leverage monies and resources for continued sustainability over time.

CGI will differ significantly from other regional development entities. It will have: (1) a tripartite governance structure, including representatives from government, the non-profit and the private sector, (2) a primary focus on neighborhood-level interventions, and (3) a reliance on a non-governmental, regional intermediary for service delivery, with an explicit methodology of having Colonias organizations as active partners throughout the life cycle of each CGI investment.

Eligible Activities. Eligible activities will be identified in conjunction with the development of selection criterion for the selection of a governing organization. At a minimum, the governing organization must include in its annual work plan the following:

- *Targeting resources to locally and regionally defined priorities.* Activities that are demand-driven, market-based and that encourage risk sharing with the private sector and community-based organizations. Targeting resources to fill capacity gaps by supporting training-of-the-trainers initiatives and providing seed capital to small-scale business and financial service delivery models. Resources will also be utilized to fill information gaps by supporting the development of a region wide geographic information system and socio economic baseline data to improve planning and to evaluate the impact and sustainability of CGI investments.

- *Enhancing access by local intermediaries to existing resources.* CGI will serve as a vehicle to improve coordination of Federal investments in the Colonias and as a one-stop resource for matching local demand with Federal, private sector and other resources.

Program Accomplishments. CGI seeks to enhance the outreach, effectiveness and sustainability of housing, infrastructure and economic development undertakings in the Colonias. It will do so by: (1) improving the coordination of existing Federal Government programs, (2) forging partnerships with the private sector and (3) building the capacity of local Colonias organizations to develop, maintain and fund community assets. These will be measured by:

- *Projects and Programs:* The coordination of existing and pending efforts by local and regional organizations to work in conjunction with each other to enhance existing programs and activities focused on pooling of resources and activities.
- *Private Sector Involvement:* Several entities have expressed an interest through their counterparts to forge partnerships and investments in the colonias, including the Ford Foundation, Wells Fargo Bank, and others.
- *Access to Capital:* The investment and leveraging funds is a key component of CGI.
- *Housing:* Several organizations are already addressing the housing of the colonias people and are gearing up to pledge more housing units as CGI gets underway.
- *Health Care:* The current substandard housing and living conditions in the colonias are further exacerbated by the large population and lack of services and resources. The regional organizations will target these issues in their annual workplan. Improving housing, providing basics infrastructure and water/sewer services will result in immediate improvement in health condition for the colonias residents in the communities.
- *Human Services:* Efforts such as the current Texas A&M service called the "Promotoras Program" is part of the daily operation of their 10 Community Resource Centers (CRCs). The "Promotoras" act as a liaison between Texas A&M, and the delivery of services at the CRCs. They provide a valuable hands-on service to the colonias residents by providing them with valuable information concerning employment, childcare, housing services, immigration services, and other services, etc. They refer colonias residents and routinely bring them in to the CRCs for services.
- *Education:* Financial literacy is a key component of CGI. It seeks to have credit unions and banks work in conjunction with the governing organization to target services and efforts to reach the colonias people to assist with banking, saving, mortgage education, credit and housing counseling. HUD has entered into a Memorandum of Understanding (MOU) with the National Federation of Community Credit Unions to further target financial literacy in the colonias. Other MOU's are pending.

Self-Help Homeownership Opportunity Program. The fiscal year 2004 Budget proposes \$65 million for the Self-Help Homeownership Opportunity Program (SHOP). Of this total, \$62 million will fund land acquisition, infrastructure improvements, and administrative costs. An additional \$3 million is proposed for technical assistance (TA) activities for SHOP grantees. The request, as did last year's, reflects the President's announcement in his May 20, 2001, speech at the University of Notre Dame, Notre Dame, Indiana, to triple this popular and successful homeownership program.

The significant increase in SHOP funding from 2002 levels recognizes the importance and proven track record of the program participants. The increase also reflects the ability of the existing participants, including the largest, Habitat for Humanity, to expand their staffing, outreach and production. As a prime example, only 200 out of 1,600 Habitat for Humanity affiliates currently participate in the program and the Housing Assistance Council submits fewer applications than they actually receive recognizing the limited funds available. In addition, despite the availability of only \$22 million in the past round, \$48 million in applications were still submitted.

Augmenting SHOP capacity and performance will be the further opening of the program to new participants. Therefore, the SHOP Budget also proposes \$3 million for technical assistance (TA) activities for both existing SHOP grantees and their affiliates, as well as new grantees. Technical assistance projects will provide the support and tools needed to strengthen capacity, improve program compliance, expand participation by non-profit housing providers, ensure cost-effectiveness and design innovative approaches to self-help housing needs. The increase in SHOP funding makes the availability of technical assistance critical to the continued success of the program. The TA funds will be used to provide direct assistance to individual grantees or affiliates, as well as to develop and deliver national training courses. In addition, TA funds will be used in the production of a variety of written and web-based materials that provide guidance to SHOP grantees and their affiliates.

Community Development Block Grants

The request also reflects the growing capacity of self-help housing organizations to expand upon recent successes in making homeownership a viable option to low-income families who otherwise would not be able to acquire a house and the efficiency and success of the model for increasing homeownership.

The SHOP program embodies HUD's focus on nurturing partnerships with non-profit organizations by providing competitive grants to national and regional non-profit housing organizations and consortia that specialize in self-help homeownership. Funds have been appropriated for SHOP as a set-aside in the CDBG appropriation. Appropriations of \$20 million were made available in fiscal years 1999, 2000, and 2001 and a \$2 million increase to \$22 million in fiscal year 2002. An expansion to \$65 million is proposed for fiscal year 2003. Current SHOP grantees are Habitat for Humanity International, Housing Assistance Council, Northwest Regional Facilitators, ACORN Housing Corporation, and the Wisconsin Association of Self-Help Executive Directors, Inc., lead entity for the Minnesota-Wisconsin SHOP Consortium.

In 2000, 1,839 SHOP-assisted units were completed; 1,942 and 2,063 units were completed in 2001 and 2002, respectively. Currently, 2,936 units are under development. Approximately 2,140 units are projected for completion in fiscal year 2004. Grantees have completed construction on 8,392 housing units from all funding years as of September 30, 2002.

The SHOP program has assisted homebuyers with an average income range between 50 to 65 percent of area median income, with some grantees assisting homebuyers at 30 percent of area median income. The SHOP program has assisted new homebuyers with incomes as low as \$15,000 per year. The homebuyer's sweat equity contribution reduces the cost of construction, and has resulted in purchase prices as low as \$31,000. The requested appropriation would assist approximately 5,200 low-income families to become new homeowners over time.

SHOP has been successful because it provides funding for the acquisition and preparation of land to assist the efforts of national and regional organizations and consortia, which have already demonstrated a strong ability to obtain materials and mobilize volunteer labor to develop high quality affordable housing. Land costs and infrastructure expenses most often are responsible for driving the cost of homeownership beyond the reach of low-income families. SHOP funds serve as the "seed money" which provides momentum for greatly expanded levels of construction investment.

The presence of Federal funds increases the ability of non-profit organizations to leverage funds from other sources, providing a substantial return on a Federal investment that does not exceed an average of \$10,000 per unit. SHOP provides a tremendous boost to building efforts across the country. Grantees indicate that the use of SHOP funds cover about one-quarter of the cost of producing a unit. Thus, SHOP funds reinforce the very grassroots nature that has made self-help housing organizations so successful at improving housing opportunities for low-income families across the country.

Capacity Building for Community Development and Affordable Housing. This program is authorized by Section 4 of the HUD Demonstration Act of 1993, which established HUD's participation in the privately organized and initiated National Community Development Initiative (NCDI). This Budget proposes \$25 million for NCDI, in which HUD has been actively involved across three phases of the Initiative's work since 1994. A fourth phase of this highly successful, public/private partnership will emphasize the capacity building of community-based development organizations, including community development corporations (CDCs), in the economic development arena and related development and community revitalization activities through the work of the intermediaries, Local Initiative Support Corporation (LISC) and Enterprise Foundation.

An independent evaluation by the Urban Institute in 2001 indicated that NCDI has had a major impact on the organizational growth and capacity development of CDCs in 23 of the Nation's poorest communities. As a result of \$150 million invested since 1991, which has leveraged seven times that amount from other sources, the number of capable CDCs in those localities has nearly doubled, the top tier has grown by approximately 45 percent, and operating budgets have grown by almost two-thirds (63 percent), translating into greater effectiveness at empowering communities and their residents.

NCDI has thus far emphasized housing development--the core business product for most CDCs nationwide--along with some investments in economic development, workforce development, childcare, and community safety. Without abandoning these important areas, each of which is a critical foundation and complement to economic development, this Budget proposes to accelerate and expand NCDI's potential in the arena of economic development and related areas. CDCs are important anchor institutions in communities across America, but many CDCs have limited expertise at pre-development, joint venturing, finance layering, commercial asset management, or the other activities that would make these organizations more effective partners with private investors in the effort to trigger untapped markets, increasing employment and creating jobs. As the Nation's leading partnership of public and private funders and intermediaries, NCDI is well-positioned to help dramatically expand the economic and community development capacity of CDCs and other community-based and nonprofit organizations, as well as joint ventures involving these organizations.

Community Development Block Grants

Since revitalized housing and safer communities lead to stronger retail demand and otherwise stimulate neighborhood economies, and since becoming effective at housing development is often the first step for CDCs in mastering the distinct challenges of economic development, this fourth phase represents the logical evolution of NCDI's successful investments to date.

Habitat for Humanity-Capacity Building. The fiscal year 2004 Budget requests \$4.5 million for Habitat for Humanity's capacity building efforts related to its "sweat equity" homeownership program. Through capacity building efforts, additional staff are trained and made available to local affiliates, which then possess the expanded ability to assist families' reach their homeownership goals. For example, projections of local Habitat for Humanity affiliates using capacity building funds appropriated in the fiscal year 1997 supplemental budget indicated a potential increase in houses built of 169 percent over a 3-year period. The scale of Habitat for Humanity's efforts are likely to produce demonstrable results across the Nation's communities and provide homeownership opportunities for low- and moderate-income families who have no other workable options to become homeowners.

Housing Assistance Council. This Budget proposes \$3 million for a cooperative agreement with the Housing Assistance Council (HAC). Building housing for low-income rural Americans has been HAC's work for 32 years. In 2004, HAC will use HUD funds to continue to work towards this goal in many ways. HAC will continue to build homes by making loans and grants to local groups. HAC will continue to build organizations by providing technical assistance to develop local capacity in rural areas nationwide, focusing attention and funding on areas traditionally underserved. HAC will continue to build knowledge by conducting research, and publishing and distributing the "HAC News" and "Rural Voices."

As in the past, HAC expects to approve at least 90 loans from its various loan funds for the development of both owner and rental housing in rural areas. To date, HAC has made approximately 1,600 loans totaling over \$133 million representing 40,500 units and 13,425 water and wastewater connections. For fiscal year 2004, HAC expects, to deliver at least 3,000 hours per month of technical assistance and training. Also, HAC will undertake at least 8 new research projects, and publish 24 issues of the "HAC News" and four issues of its quarterly rural housing magazine "Rural Voices."

National American Indian Housing Council. This Budget proposes a \$2.2 million cooperative agreement with the National American Indian Housing Council (NAIHC). Established in 1974, NAIHC delivers technical assistance and training to Tribally Designated Housing Entities (TDHEs) and undertakes research and provides information on Native American Housing issues.

In fiscal year 2004, NAIHC will continue to deliver technical assistance and training to the many tribal housing entities, including Indian Housing Authorities (IHAs), tribal housing agencies and regional housing associations. In fiscal year 2004, NAIHC will continue to provide direct support to regional housing associations, IHAs, and tribal housing groups in areas such as Low-Income Housing Tax Credits, homebuyer counseling, the HUD Section 184 Loan Program, the leveraging of funds, and in meeting the monitoring and other requirements outlined in the Native American Housing Assistance and Self Determination Act (NAHASDA). NAIHC's training efforts will continue to be directed at assisting IHAs/TDHEs in understanding and utilizing NAHASDA. NAIHC will also undertake at least one research projects in an area concerning housing and community development in tribal areas, and will develop and collect materials for the Native American Housing Resource Center.

President's Management Agenda- Consolidated Plan Improvement Initiative. In March 2002 HUD convened a meeting of state and local government grantees, interest groups and advocates to commence an effort to both streamline the Consolidated Plan and make it more results-oriented. Communities use the Consolidated Plan to identify community and neighborhood development needs, the actions that will address those needs, and the measures to gauge their performance.

Following the initial meeting, working groups met through the summer to develop suggestions for improvement. Accomplishments to date include:

- A report containing the group's ideas of both statutory and regulatory changes was completed;
- HUD issued simplified policy guidance for completing Consolidated Plans and Annual Action Plans; and
- HUD has begun modernizing the Integrated Disbursement and Information System to make it more user-friendly and enhance reporting capabilities.

Actions planned for the immediate future include:

- During fiscal year 2003, HUD will test several pilots suggested by the working groups; and
- As an outgrowth of this initiative, HUD will develop improved program performance reporting.

Community Development Block Grants

Working Capital Fund transfers. This Budget proposes no less than \$4.9 million to the Working Capital Fund (WCF) to allow for systems development and enhancements for CPD programs.

Rescission of Urban Development Action Grant (UDAG) funds. This Budget proposes the rescission of up to \$30 million of recaptured balances from terminated UDAG grants.

The following table summarizes the distribution of the 2002 appropriations, 2003 estimates, and the 2004 Budget request:

<u>DISTRIBUTION OF APPROPRIATIONS</u>			
	<u>ENACTED</u> <u>2002</u>	<u>ESTIMATE</u> <u>2003</u>	<u>ESTIMATE</u> <u>2004</u>
	(Dollars in Thousands)		
Entitlement Cities and Counties.....	\$3,038,700	\$3,100,300	\$3,100,300
Nonentitlement (States and Small Cities).....	1,302,300	1,328,700	1,328,700
Insular Areas.....	<u>[7,000]</u>	<u>7,000</u>	<u>7,000</u>
Subtotal.....	4,341,000	4,436,000	4,436,000
Native Americans.....	70,000	72,500	72,500
Section 107 Grants.....	42,500	38,900	37,900
Working Capital Fund (WCF) Transfer.....	13,800	3,400	4,900
Economic Development Earmarks.....	294,200	...	...
Youthbuild.....	65,000	65,000	65,000
Resident Opportunity & Supportive Services.....	55,000	[55,000] <u>d/</u>	[55,000] <u>d/</u>
Housing Assistance Council.....	3,300	3,000	3,000
National American Indian Housing Council.....	2,600	2,200	2,200
Neighborhood Initiatives Demonstration.....	42,000	...	...
Self-Help Homeownership Opportunity Program....	22,000	65,000	65,000
Habitat for Humanity Capacity Building	4,000	4,500	4,500
Capacity Building (NCDI).....	25,000	25,000	25,000
National Housing Development Corp.....	5,000	...	...
Tribal Colleges and Universities.....	[3,000] <u>a/</u>	[3,000] <u>a/</u>	[3,000] <u>a/</u>
Alaska & Hawaiian Serving Institutions.....	[4,000] <u>a/</u>	[2,400] <u>a/</u>	[2,400] <u>a/</u>
Nat'l Council of LaRaza for Hope Fund.....	5,000	...	...
Hawaiian Homelands Homeownership	9,600	...	...
Colonias Gateway Initiative .....	...	<u>16,000</u>	<u>16,000</u>
Subtotal	5,000,000	4,731,500	4,732,000
Recovery from terrorist attacks in New York			
Transfer of Unobligated balances	700,000 <u>b/</u>	...	...
New Budget Authority	<u>2,783,000</u> <u>c/</u>	...	...
Total - CDBG	<u>\$8,483,000</u>	<u>\$4,731,500</u>	<u>4,732,000</u>

a/ Funded as a set-aside under Section 107.

b/ \$700 million was transferred into the CDBG program pursuant to the fiscal year Emergency Supplemental Appropriations Act (P.L. 107-38) and Section 434 of the fiscal year 2002 Appropriations Act (P.L. 107-73), to be used in response to the terrorist attacks in New York.

c/ \$2 billion was appropriated in P.L. 107-117 and \$783 million was appropriated in P.L. 107-206 for recovery from the terrorist attacks in New York.

d/ Both the fiscal year 2003, and 2004 request for the Resident Opportunity & Supportive Services (ROSS) program are reflected within the Public Housing Capital Fund.

EXPLANATION OF INCREASES AND DECREASES

The Budget proposes \$4.7 billion for CDBG in fiscal year 2004. Obligations are expected to decrease by \$776 million in fiscal year 2004, reflecting the decrease of funding related to supplemental assistance to New York City for 9/11 aid. Outlays are expected to increase from fiscal year 2002 by \$1.2 billion in fiscal year 2003 and decrease by \$521 million from fiscal year 2003 to fiscal year 2004, reflecting mainly the effects of the \$3.5 billion appropriated for recovery from the terrorist attacks in New York.

The Budget terminates new funding for the Section 108 Loan Guarantee program. Fiscal year 2003 Section 108 loan guarantee authority will fund commitments in fiscal years 2003 and 2004.

PROGRAM DESCRIPTION AND ACTIVITY

1. Legislative Authority. CDBG is authorized by Title I of the Housing and Community Development Act of 1974, as amended. Two legislative proposals related to the CDBG program are being developed.

2. Program Area Organization. The Community Development Block Grant (CDBG) program provides flexible funding for communities across the Nation to develop and implement community and economic development strategies that primarily benefit low- and moderate-income individuals.

Community Development Block Grants

Community Development Block Grants are provided to units of local government and States for the funding of local community development programs which address housing and economic development needs, primarily for low- and moderate-income persons.

Grantees access their CDBG funding through the Consolidated Plan process, under which States and localities establish their local priorities and specify how they will measure their performance. A locality's Consolidated Plan serves as the planning and application mechanism for CDBG funds. Grantees report their performance through the Consolidated Annual Performance and Evaluation Report.

a. Program Purpose. Title I of the Housing and Community Development (HCD) Act of 1974, as amended, authorizes the Secretary to make grants to units of general local government and States for the funding of local community development programs. The program's primary objective is to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low- and moderate-income. This objective is achieved by limiting activities to those which carry out one of the following broad national objectives: (1) benefit low- and moderate-income persons; (2) aid in the prevention or elimination of slums and blight; or (3) meet other particularly urgent community development needs. At least 70 percent of all CDBG funds received by a grantee must be used for activities that benefit persons of low- and moderate-income over a period of up to 3 years. Historically, communities have used more than 90 percent of their CDBG funds for such activities.

The underlying principle of the CDBG program is that recipients have the knowledge and responsibility for selecting eligible activities most appropriate to their local circumstances. In addition, instead of competing for categorical project dollars each year, the entitlement communities and States have a basic grant allocation so they know in advance the approximate amount of Federal funds they will receive annually.

b. Eligible Recipients and Activities.

Eligible Recipients. Eligible CDBG grant recipients include States, units of general local government (city, county, town, township, parish, village or other general purpose political subdivision determined to be eligible for assistance by the Secretary), the District of Columbia, Puerto Rico, Guam, the Virgin Islands, American Samoa, the Commonwealth of the Northern Marianas, and recognized Native American tribes and Alaskan Native villages.

Eligible Activities. Section 105 of the HCD Act of 1974, as amended, permits a broad range of activities to be undertaken by communities assisted under the program, ranging from the provision of public facilities or services to economic development or residential rehabilitation and, in some cases, substantial reconstruction of housing.

Fund Distribution. CDBG funds are allocated to States and localities based on the formulae described below. After deducting designated amounts for set-asides, 70 percent of funds go to entitlement communities and 30 percent go to States for nonentitlement communities (small cities).

c. Explanation of Funds Allocated by Recipient Category.

1. Formula Entitlement. The HCD Act of 1974, as amended, provides for the distribution of funds to eligible recipients (metropolitan cities and urban counties) for community purposes utilizing the higher of two formulas, as shown:

<u>ORIGINAL FORMULA</u>	<u>SECOND FORMULA</u>
Poverty - 50 percent	Poverty - 30 percent
Population - 25 percent	Population growth lag (1960-2000) - 20 percent
Overcrowded housing - 25 percent	Age of housing stock - 50 percent

"Age of housing stock" means the number of existing year-round housing units constructed before 1940, based on Census data. "Population growth lag" means the extent to which the current population of a metropolitan city or urban county is less than the population it would have had if its population growth rate between 1960 and the date of the most recent population count had been equal to the growth rate of all metropolitan cities over the same period.

Metropolitan Cities. Cities in Metropolitan Statistical Areas (MSAs) with a population of 50,000 and over and central cities of MSAs are entitled to funding on the basis of one of the formulas. For fiscal year 2002, 865 metropolitan cities are eligible to receive grants. Of these, 23 have elected to enter into joint grant agreements with their urban counties.

Urban Counties. The statute also entitles urban counties to formula grants. In fiscal year 2002, 159 counties met the required population threshold and were eligible for formula funding. These urban counties include over 4,000 cooperating local incorporated units

Community Development Block Grants

receiving funding under the program. A test for designation as an urban county requires that the county be authorized under State law to undertake essential community development and housing assistance activities in its unincorporated areas which are not units of general local government.

The urban county must have authority to perform such functions in its participating incorporated communities either under State law or through cooperative agreements. These agreements must express the intention of the urban county and its incorporated jurisdictions to cooperate in essential community development and housing assistance activities, specifically urban renewal and publicly assisted housing. Participation by any included unit of government is voluntary. An urban county's qualification is valid for a 3-year period.

2. Nonentitlement (State/Small Cities Program). Nonentitlement funds are allocated among the States according to a dual formula, with the allocation being the higher of amounts determined under the original formula or a second formula which is identical to that used for entitlement communities except that population is substituted for growth lag.

Under the HCD Act of 1974, as amended, any State that elects to administer the Small Cities program in fiscal year 1985 or thereafter shall be considered to have assumed this responsibility permanently and, if it fails to provide an annual submission, funds will be reallocated among all other States in the succeeding year since 1982. States have had the option of assuming responsibility for administering the program and awarding grants to nonentitled units of government. Where the State does not so elect, HUD distributes the funds. HUD currently administers the State CDBG program only for Hawaii.

Legislative change to treat Hawaii's Nonentitlement program as entitled. Since the New York State programs were transferred to State control in 2001, Hawaii remains as the only State that has not taken the program. Hawaii has only three eligible applicants in three counties. HUD currently, by regulation, distributes funds to the counties by the CDBG formula. While this works fairly well, it still causes each program policy to be rethought and published separately for Hawaii. The fiscal year 2003 Budget proposed a statutory change that would allow HUD to treat the three counties as entitlements and continue distributing the funds as we have been. This proposal will be resubmitted in fiscal year 2004 if it is not enacted in fiscal year 2003. The program currently provides about \$5.1 million to the 3 counties. However, HUD will develop a means to take the funds from the 30 percent nonentitlement component and not further reduce the 70 percent entitlement component. This change would allow HUD to administer one less program with all those implications, which would be helpful to staff in Headquarters and the field. It would also solidify the counties' status as direct entitlements.

3. Section 107 Grants. The Housing and Community Development Act of 1992 (P.L. 102-550) expanded Section 107 authorization to include Community Outreach Partnership Act funding, Community Adjustment Planning, assistance to joint State/local government/university programs, and Regulatory Barrier Removal Act funding. Section 107 grants have also included five program categories providing assistance for Insular Areas; Historically Black Colleges and Universities; Community Development Work Study; funding to States and units of general local government to correct any miscalculation of their share of funds under section 106; and technical assistance in planning, developing and administering programs under Title I.

Legislative change to treat Insular Areas as entitled. As mentioned earlier in this justification, the Department also proposed in fiscal year 2003 a legislative change to move the authorization for funding for the Insular areas out of Section 107 and into Section 106. This proposal will be resubmitted in fiscal year 2004 if it is not enacted in fiscal year 2003.

A total of \$37.9 million is requested for Section 107 grants in fiscal year 2004. These amounts and other set-asides are subtracted from the total appropriation prior to allocating funds that are provided directly to States and units of local government. The proposed distribution of Section 107 grants follows:

DISTRIBUTION OF SECTION 107

	ENACTED <u>2002</u>	ESTIMATE <u>2003</u>	ESTIMATE <u>2004</u>
		(Dollars in Thousands)	
Insular Areas.....	7,000	[7,000] <u>a/</u>	[7,000] <u>a/</u>
Technical Assistance.....	...	3,000	3,000
Program Management and Analytical Support.....	...	4,000	3,000
Historically Black Colleges and Universities....	10,500	10,000	10,000
Community Development Work Study.....	3,000	3,000	3,000
Hispanic-Serving Institutions			
Assisting Communities.....	7,500	5,500	5,500
Alaska Native & Native Hawaiian Institutions			
Assisting Communities.....	4,000	2,400	2,400
Tribal Colleges & Universities.....	3,000	3,000	3,000
Community Outreach Partnership Centers.....	<u>7,500</u>	<u>8,000</u>	<u>8,000</u>
Total Section 107.....	\$42,500	\$38,900	\$37,900

a/ Legislative proposal is recommended to fund as part of Section 106 formula grants.

d. Reallocation of Entitlement Funds. CDBG amounts allocated to a metropolitan city or urban county in a fiscal year which become available for reallocation as a result of an eligible community not applying for its allocation are first reallocated in the succeeding fiscal year to other metropolitan cities and urban counties in the same Metropolitan Statistical Area (MSA). These communities must follow a simple certification process to qualify for receipt of these funds.

e. Reallocation of Nonentitlement Funds. Existing law requires that amounts allocated for use in a State in a fiscal year which become available for reallocation must be reallocated according to the following criteria:

- in the case of actions against small cities, amounts that become available for reallocation are to be added to amounts available for distribution in the State in the fiscal year in which the amounts become available; and
- in the case of actions against a State, these amounts will be allocated among all States in the succeeding fiscal year.

f. Consolidated Plan Requirement. The Consolidated Plan is the vehicle by which communities identify community and neighborhood development needs, actions to address those needs (including specific activities on which CDBG dollars will be spent), and the measures against which their performance will be judged. The Consolidated Plan also provides a means for identifying key low-income neighborhoods for targeted multiyear investment strategies. The President's Management Agenda has tasked CPD with Streamlining the Consolidated Plan, and making it more results oriented and useful to communities in assessing their progress in addressing the needs of low-income areas.

In order to receive CDBG entitlement funds, a grantee must develop and submit to HUD its Consolidated Plan and Annual Action Plans, which are a jurisdiction's plan and application for funding under the following Community Planning and Development formula grant programs: CDBG, HOME Investment Partnerships, Housing Opportunities for Persons With AIDS (HOPWA), and Emergency Shelter Grants (ESG). In its Consolidated Plan, the jurisdiction must identify its goals for these community planning and development programs, as well as for housing programs. In addition, the Consolidated Plan must include the jurisdiction's projected use of funds and required certifications. These certifications include that the grantee is following a current HUD-approved Consolidated Plan, that not less than 70 percent of the CDBG funds received over a 1-, 2- or 3-year period specified by the grantee, will be used for activities that benefit persons of low- and moderate-income, and that the grantee is following other applicable laws, regulations, OMB circulars, and is affirmatively furthering fair housing. A Consolidated Plan submission will be approved by HUD unless the Plan (or a portion of it) is inconsistent with the purposes of the National Affordable Housing Act or it is substantially incomplete.

States participating in the State CDBG program must also develop and submit to HUD a Consolidated Plan similar to those required of entitlement communities. However, in place of a listing of proposed funded activities, each State must merely describe its funding priorities and must describe the method it intends to use to distribute funds among communities in nonentitlement areas. Each participating State must submit certifications that it will:

- (1) follow the Act's citizen participation requirements and require assisted local governments to follow citizen participation;
- (2) conduct its program in accordance with the Civil Rights Act of 1964 and the Fair Housing Act of 1988 and affirmatively further fair housing;
- (3) set forth and follow a method of distribution that ensures that each of the funded activities will meet one or

Community Development Block Grants

more of the three broad national objectives of the program; (4) consult with affected local governments in determining the method of distribution and identifying community development needs; and (5) comply with Title I of the HCD Act and all other applicable laws. It must also certify that each housing activity funded will be consistent with the State's Consolidated Plan.

g. Performance Review. CDBG grantees (entitlement communities and states) that have approved Consolidated Plans must annually review and report to HUD on its progress in carrying out its strategic and action plans for community development. This includes a description of CDBG, HOME, ESG and HOPWA funds made available to the grantee, the activities funded, the geographic distribution and location of the activities and the types of families or persons assisted (beneficiaries), and a report of the actions taken to affirmatively further fair housing. The report includes an assessment by the grantee of the relationship of its use of funds to the specific objectives identified in the Consolidated Plan.

HUD is required to review or audit a grantees' performance, at least annually, to determine whether activities have been carried out in a timely manner, whether activities and certifications have been carried out in accordance with all applicable laws, and whether the grantee has continuing capacity to carry out the program. In the case of States, HUD performs reviews to determine if the state has distributed funds in a timely manner, consistent with its method of distribution, is in compliance with CDBG requirements and other applicable laws and whether appropriate reviews of grants awarded to local governments have been conducted by the State. HUD is authorized to terminate, reduce or limit the availability of the funds of a grantee according to review findings following the opportunity for a consultation or in some cases following a hearing before an administrative law judge. For nonentitlement grants made by HUD to small cities, HUD may adjust, reduce, or withdraw such funds, or take other action as appropriate according to review findings.

STATUS OF FUNDS

Balances Available

a. Unobligated balances. The following table compares program obligations with funds available for distribution by year:

	<u>ACTUAL</u> <u>2002</u>	<u>ESTIMATE</u> <u>2003</u>	<u>ESTIMATE</u> <u>2004</u>
	(Dollars in Thousands)		
Unobligated balance, start of year....	\$1,026,073	\$1,746,779	\$935,000
Appropriation.....	7,000,000	4,731,500	4,732,000
Supplemental.....	783,000	...	...
Transfer of Unoblig. Balances	700,000	...	...
Prior Year Recoveries.....	2,649	...	...
Total Available.....	<u>9,511,722</u>	<u>6,478,279</u>	<u>5,667,000</u>
Obligations, gross (excluding reimbursements).....	-7,755,965	-5,543,279	-4,767,000
Unobligated balance expiring.....	-8,978	...	...
Unobligated balance, end of year.....	<u>1,746,779</u>	<u>935,000</u>	<u>900,000</u>

b. Obligated Balances. The status of obligated balances is as follows:

	<u>ACTUAL</u> <u>2002</u>	<u>ESTIMATE</u> <u>2003</u>	<u>ESTIMATE</u> <u>2004</u>
	(Dollars in Thousands)		
Obligated balance, start of year.....	\$9,090,951	\$11,409,193	\$10,302,152
Obligations, gross.....	7,755,965	5,543,279	4,767,000
Subtotal.....	16,846,916	16,952,472	15,069,152
Outlays (Gross).....	-5,428,857	-6,650,320	-6,129,440
Adjustment in expired accounts.....	-6,217	...	...
Adjustment in unexpired accounts.....	-2,649	...	...
Obligated balance, end of year.....	<u>11,409,193</u>	<u>10,302,152</u>	<u>8,939,712</u>

NOTE: Actual outlays are governed by the rate at which communities expend funds which have been made available to them.

DISTRIBUTIONS OF FUNDS BY STATE

The following table shows combined entitlement and nonentitlement allocations, by State, for 2002, 2003 and 2004 appropriations. The 2003 and 2004 amounts represent preliminary estimates which are subject to change.

<u>STATE OR TERRITORY</u>	<u>ACTUAL</u>	<u>ESTIMATE</u>	<u>ESTIMATE</u>
	<u>2002</u>	<u>2003</u>	<u>2004</u>
	Dollars In Thousands		
Alabama	\$62,370	\$58,739	\$58,739
Alaska	5,560	5,975	5,975
Arizona	54,454	63,979	63,979
Arkansas	33,751	32,388	32,388
California	528,549	572,793	572,793
Colorado	42,223	45,700	45,700
Connecticut	49,715	50,417	50,417
Delaware	8,075	8,724	8,724
District of Columbia	23,206	23,330	23,330
Florida	180,892	194,702	194,702
Georgia	89,990	98,421	98,421
Hawaii	18,308	18,364	18,364
Idaho	12,350	14,063	14,063
Illinois	215,228	212,445	212,445
Indiana	83,059	83,178	83,178
Iowa	48,398	48,654	48,654
Kansas	34,561	33,246	33,246
Kentucky	58,237	54,147	54,147
Louisiana	83,824	74,299	74,299
Maine	22,896	23,239	23,239
Maryland	65,842	68,120	68,120
Massachusetts	129,996	132,980	132,980
Michigan	167,294	159,212	159,212
Minnesota	70,828	69,868	69,868
Mississippi	46,415	41,104	41,104
Missouri	84,752	81,872	81,872
Montana	10,775	10,862	10,862
Nebraska	23,940	23,379	23,379
Nevada	17,079	24,027	24,027
New Hampshire	15,068	15,621	15,621
New Jersey	121,685	123,212	123,212
New Mexico	23,660	24,767	24,767
New York	415,894	428,092	428,092
North Carolina	75,577	83,845	83,845
North Dakota	8,280	7,574	7,574
Ohio	197,634	194,713	194,713
Oklahoma	37,593	36,605	36,605
Oregon	39,396	43,824	43,824
Pennsylvania	271,142	269,411	269,411
Rhode Island	20,236	20,874	20,874
South Carolina	46,840	45,958	45,958
South Dakota	10,054	9,464	9,464
Tennessee	60,874	59,713	59,713
Texas	302,217	307,447	307,447
Utah	23,889	24,553	24,553
Vermont	9,956	9,791	9,791
Virginia	70,369	72,941	72,941
Washington	66,682	74,462	74,462
West Virginia	30,768	29,532	29,532
Wisconsin	81,141	79,529	79,529
Wyoming	4,763	4,995	4,995
Puerto Rico	134,715	133,850	133,850
Insular Areas . . . . .	... a/	7,000 a/	7,000 a/
Subtotal Entitlement & Non-Entitlement	4,341,000	4,436,000	4,436,000
Other activities	659,000	295,500	296,000
TOTAL CDBG	5,000,000	4,731,500	4,732,000

a/ Insular Areas are included under other activities in fiscal year 2002. There is a legislative proposal in fiscal year 2003 to move authorization for funding Insular Areas out of Section 107 and into Section 106. This proposal will be resubmitted in fiscal year 2004 if it is not enacted in fiscal year 2003.

NOTE: The fiscal year 2002 amount does not include the \$2.783 billion supplemental for New York.

Community Development Block Grants

ADMINISTRATIVE EXPENSES

FTE/OBJECT CLASS	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004
FTE			
Headquarters	115	120	117
Field	385	403	396
Total FTE	500	523	513
S&E Cost (Dollars in Thousands)			
Personal Services	\$43,287	\$46,506	\$46,847
Travel	501	460	474
Printing	353	255	254
Other Services	1,419	1,416	1,790
Supplies	43	16	16
Total S&E Cost	\$45,603	\$48,653	\$49,381