

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

States Are Making Good Progress In Implementing The Small Cities Community Development Block Grant Program

The Omnibus Budget Reconciliation Act of 1981 consolidated numerous Federal categorical programs into nine block grants and shifted primary administrative responsibility to the States. GAO's review of early implementation of the Small Cities Community Development Block Grant Program in seven States found that the States were using the flexibility that the act gave them to design their programs and distribute funds to meet what they considered their greatest community development needs.

Compared with the previous HUD program, the State programs emphasize economic development and public facilities improvements and deemphasize housing rehabilitation. State programs also attract more funds from private and public sources to supplement the Small Cities Program.

States used a variety of methods to obtain public input into the design of their programs and to meet their public participation certifications, and followed their distribution procedures and criteria in awarding funds to communities. HUD and State officials, public interest groups, and grantees and unsuccessful applicants generally believed the States' initial efforts compare favorably with HUD's former program. Unsuccessful applicants, however, believed this to a lesser extent than grantees.



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COMPTROLLER GENERAL OF THE UNITED STATES
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To the President of the Senate and the
Speaker of the House of Representatives

This report is the first of a series of reports on States' implementation of the block grants authorized by the Omnibus Budget Reconciliation Act of 1981. It addresses the initial progress seven States have made in implementing the Small Cities Community Development Block Grant Program.

We are reviewing the nine block grant programs created by the act because the Congress, as well as the public and private sectors, has expressed a great deal of interest in how States have exercised their new authority and what impact the new approach to block grants is having on the services provided to the people. The report should assist the Congress in its oversight of block grants.

Copies of this report will be sent to the appropriate House and Senate committees; the Secretary of Housing and Urban Development; the Director, Office of Management and Budget; and the Governors and legislatures of the States we visited.

Charles A. Bowsher
Comptroller General
of the United States

D I G E S T

The Omnibus Budget Reconciliation Act of 1981 substantially changed the administration of various Federal domestic assistance programs. The act consolidated numerous Federal categorical programs into nine block grants and shifted primary administrative responsibility to the States, with Federal agencies retaining a stewardship role. The act provides States with greater flexibility, within certain legislated limitations, to determine programmatic needs, set priorities, allocate funds, and establish oversight mechanisms.

Since passage of the act, the Congress, as well as the public and private sectors, has expressed a great deal of interest in how States have exercised their new authority and in the impact that this new approach to block grants is having on the level of services provided to the public. To assist the Congress in its oversight of block grants, GAO is reviewing the nine block grant programs that the act created. (See p. 1.)

This report, the first of a series on States' implementation of block grants, assesses the initial progress seven States--Alabama, Delaware, Iowa, Kentucky, Massachusetts, Michigan, and Utah--have made in implementing the Small Cities Community Development Block Grant Program (Small Cities Program). GAO conducted its fieldwork from December 1, 1982 to January 15, 1983. Although it was too early to assess the full range of activities under the State programs, this report addresses congressional and other concerns about (1) changes that have occurred as States used their flexibility in funding community development activities to meet local needs; (2) methods States used to meet public participation requirements, including the role local governments and citizens played in setting community development objectives and priorities; (3) the States' methods for distributing funds and selecting grantees; and (4) local communities' and others' perceptions of how States are administering the 1982 Small Cities Program compared with how the Department of Housing and Urban Development (HUD) administered the previous program. In fiscal year 1982, over \$1 billion

was allocated among the 50 States and Puerto Rico for the Small Cities Program compared with about \$926 million in fiscal year 1981. (See pp. 1 to 5.)

CHANGES RESULT FROM STATE
AND LOCAL DECISIONMAKING

The seven States were using their flexibility to design their programs and fund activities to meet what they considered the greatest local community development needs. In five of the seven States, the State-administered program differed from the previous HUD-administered program in that the amount of housing rehabilitation funded, as a percentage of the total funds awarded, decreased and either public facilities or economic development activities increased. The decreases ranged from 7 percentage points (22 to 15) in Alabama to 31 percentage points (40 to 9) in Iowa. These decreases do not necessarily mean that fewer dollars were to be spent on housing rehabilitation activities, since, in six of the seven States, Small Cities Program grants were supplemented with substantially more funds than under the HUD-administered program. For example, under the HUD-administered program, grants were supplemented by \$31 million in local, State, private and/or other Federal funds, whereas under the State-administered programs, grants were supplemented by other funds, which totaled \$312 million. Furthermore, all seven States awarded, on average, smaller grants than HUD had awarded, and five States (Alabama, Delaware, Iowa, Michigan, and Utah) awarded more grants. (See pp. 15 to 20.)

In six of the seven States, the State-administered program also differed from the previous HUD-administered program in that the expected percentage of beneficiaries who were low- and moderate-income persons was less. This comparison is based on approved project data from the grantees' applications under both programs. Thus, it reflects planned, not actual, benefits to low- and moderate-income persons. Actual benefit data were not available. The expected percentage of beneficiaries who were low- and moderate-income persons decreased 6 percentage points in Massachusetts (from 90 to 84); 12 percentage points in Utah (from 71 to 59); 13 percentage points in Alabama (from 95 to 82); 13 percentage points in Kentucky (from 85 to 72); 15 percentage points in Iowa (from 91 to 76); and 19 percentage points in Michigan (from 91 to 72).

In Delaware, the expected percentage of beneficiaries who were low- and moderate-income persons increased from 94 to 95.

Here, again, the percentage decreases do not necessarily mean that fewer dollars were to be spent to benefit low- and moderate-income persons, since, in six of the seven States, Small Cities Program grants were supplemented with substantially more funds than under the HUD-administered program. Also, in two of the seven States, low- and moderate-income benefit data on some projects were reported only as minimum percentages. For example, in Kentucky, some of the grantees requesting funds for economic development projects stated only that at least 51 percent of those benefiting would be low- and moderate-income persons.

The decreases in the expected percentage of beneficiaries who were low- and moderate-income persons may have resulted from the shift in funding from housing rehabilitation activities to public facilities and economic development activities because housing rehabilitation activities can more easily be targeted to specific groups and/or individuals. Although public facilities and economic development projects may also serve high percentages of low- and moderate-income persons, these projects are more difficult to target because they often provide area-wide benefits. (See pp. 20 and 21.)

It is too early to determine the precise impact of the differences because the data represent how communities planned to use funds. While States had not finalized their reporting requirements during GAO's review, efforts initiated by the Council of State Community Affairs Agencies were underway to develop a uniform State reporting format that would cover actual data on beneficiaries who are low- and moderate-income persons as well as other information on the State-administered Small Cities Program. GAO believes such information is needed (1) to determine the extent to which the Community Development Block Grant Program's primary objective--carrying out community development activities which principally benefit low- and moderate-income persons--is being met and (2) for HUD to evaluate and report to the Congress on the overall effectiveness of the program. (See pp. 21 to 27.)

STATES EMPHASIZED PUBLIC
PARTICIPATION IN DESIGNING
THEIR PROGRAMS

Title III of the Omnibus Budget Reconciliation Act of 1981 sets forth specific requirements to permit public examination and appraisal of States' proposed and final statement of objectives to enhance public accountability of the States and to facilitate coordination of activities with different levels of government. The States are required to certify to HUD that they have met these requirements.

In designing their programs, States used a variety of methods to meet their public participation certifications. States provided information about the proposed programs to citizens and allowed affected citizens and local governments the opportunity to review and comment on the program. Each State held at least one public hearing to solicit public comments, and citizen input also helped local communities determine their community development needs. Also, all seven States made the final program design available to the public for review.

Six States--Alabama, Iowa, Kentucky, Massachusetts, Michigan, and Utah--used an agency or office within the State government to design the initial program, and, except for Michigan, they either established or used existing advisory groups to assist in the Small Cities Program's development. Michigan consulted with its regional planning agencies. Delaware, using a different approach, hired a consultant to develop its initial program design. (See pp. 6 to 10.)

In response to GAO's questionnaires to applicants in the seven States, 77 percent of the grantees and 57 percent of the unsuccessful applicants told GAO that the State asked for their suggestions on how to formulate and carry out the Small Cities Program. Eighty-eight percent of the grantees and 72 percent of the unsuccessful applicants said that the communication that took place between the State and the local community prior to implementing the Small Cities Program was adequate or more than adequate. (See p. 8.)

STATES ADHERED TO THEIR FUNDING
OBJECTIVES AND SELECTION CRITERIA

All seven States used different methods for distributing funds and selecting grantees.

Grantees were selected primarily on a competitive basis--after applications were rated, they competed against each other for funding--and generally in accordance with the procedures and criteria outlined in the State's statement of objectives provided to HUD.

Methods for distributing funds varied. For example, Alabama, Iowa, Kentucky, Michigan, and Utah designed their programs to divide Small Cities Program funds among various categories such as types of activities, size of cities, and geographical areas prior to determining specific projects to fund. Delaware and Massachusetts, on the other hand, did not predetermine what funding would be available for various categories. (See pp. 11 and 12.)

States developed different approaches to select individual projects for funding. Delaware, Iowa, Utah, and Massachusetts made all their award decisions using competitive rating systems, while Michigan, Kentucky, and Alabama used both competitive and noncompetitive selection processes. (See pp. 12 to 14.)

STATE-ADMINISTERED PROGRAMS
COMPARE FAVORABLY WITH FORMER
HUD-ADMINISTERED PROGRAM

State and HUD Small Cities Program officials, as well as public interest group officials, generally believed that their respective State-administered programs compared favorably with the former HUD program. Also, most grantees and unsuccessful applicants who compared their State program with the former HUD program generally believed their State's program was equivalent to or better than HUD's. Furthermore, most grantees and unsuccessful applicants provided favorable ratings on specific aspects of their State program.

For example, 92 percent of the grantees and 66 percent of the unsuccessful applicants believed that the projects and activities encouraged by their State program were adequate or more than adequate to address the community's development needs; 85 percent of the grantees and 53 percent of the unsuccessful applicants familiar with their State's method for selecting grantees labeled the process as fair; 66 percent of the grantees and 44 percent of the unsuccessful applicants received State assistance in preparing their applications for Small Cities Program

funding, and the majority of these described it as helpful. (See pp. 29 to 37.)

AGENCY COMMENTS AND
GAO'S EVALUATION

In commenting on the report, HUD generally agreed with most of the findings and conclusions. HUD said, however, that GAO's conclusion on the need for actual data on the extent States' overall program benefits low- and moderate-income persons to determine whether the Community Development Block Grant Program's primary objective is being met, was not as critical as portrayed in the report. HUD maintains, as it had in commenting on a prior GAO report, that the primary objective can be achieved by funding activities through a program that gives maximum feasible priority to any one of three broad national objectives-- (1) benefiting low- and moderate-income persons, (2) aiding in the prevention or elimination of slums or blight, or (3) meeting other community development needs having particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available to meet such needs. HUD said that it expects States to demonstrate how their funded activities address one, but not all, of the three national objectives. HUD said, for example, that it does not expect States to demonstrate how slum and blight activities benefit low- and moderate-income persons.

GAO believes that HUD's interpretation of the way the act's primary objective can be met would make it easier for grantees to shift their programs' targeting away from low- and moderate-income persons if they wished to do so. GAO also believes that, without actual data on the extent States' overall program benefits low- and moderate-income persons, HUD would have difficulty in determining whether a shift in grantee targeting had occurred. (See pp. 27 and 28.)

In this regard, legislation has been proposed in both the House and Senate which would (1) reemphasize that the act's primary objective is to carry out community development activities which principally benefit low- and moderate-income persons and (2) require reporting on overall program benefits to low- and moderate-income persons. House bill H.R. 1 passed the House on July 13, 1983. Senate bill S. 1338 is currently before the Senate. (See pp. 25 and 26.)

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ABBREVIATIONS

GAO	General Accounting Office
HUD	Department of Housing and Urban Development

CHAPTER 1

INTRODUCTION

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) substantially changed the administration of various Federal domestic assistance programs. The 1981 act consolidated numerous Federal categorical programs into nine block grants and shifted primary administrative responsibility to the States, with Federal agencies retaining a stewardship role. Of the nine block grants enacted, four related to health services, two to social services, one to low-income energy assistance, one to education, and one to community development. Six of the block grants were newly created and three involved changes to existing ones.

The 1981 act gives States greater discretion, within certain legislated limitations, to determine programmatic needs, set priorities, allocate funds, and establish oversight mechanisms. Since the act was passed, the Congress, as well as the public and private sectors, has been greatly interested in how the States have exercised their additional discretion and what impact the new approach to block grants is having on services provided to the people. Consequently, we are reviewing nine block grant programs created by the Omnibus Budget Reconciliation Act of 1981 to provide the Congress with a series of reports¹ on States' implementation of these programs.

This report addresses the Small Cities Community Development Block Grant Program's² implementation in seven States--Alabama, Delaware, Iowa, Kentucky, Massachusetts, Michigan, and Utah. Specifically, it describes the decisionmaking processes used to design the State programs; assesses the State processes of selecting local funding recipients in 1982; compares State funding of community development activities in 1982 with the Department of Housing and Urban Development's (HUD's) funding in

¹In August 1982 we provided the Congress an initial look at implementation of the 1981 legislation in our report entitled "Early Observations on Block Grant Implementation" (GAO/GGD-82-79). Also, on the basis of preliminary results of this review on March 9, 1983, we provided a statement for the record before the Subcommittee on Housing and Urban Affairs, Senate Committee on Banking, Housing and Urban Affairs, on our views of States' early implementation of the Small Cities Community Development Block Grant Program.

²Throughout the report, we use the term "Small Cities Program," although HUD regulations refer to the program as the "State's program."

1981;³ and provides perceptions of State, HUD, and public interest group officials, and successful and unsuccessful applicants on various aspects of the State-administered programs.

HISTORY OF THE SMALL CITIES PROGRAM

The Small Cities Program had its beginnings with the passage of the Housing and Community Development Act of 1974 (Public Law 93-383). Title I of this act created the Community Development Block Grant Program. It replaced several former categorical grant and loan programs under which communities applied for funds on a case-by-case basis. The primary objective of title I was the development of viable urban communities by providing decent housing and suitable living environments, and by expanding economic opportunities, principally for low- and moderate-income persons.

The program allowed communities two types of grants--discretionary and entitlement. Small communities in metropolitan areas and communities in nonmetropolitan areas were eligible to receive annual discretionary grants. These communities were made up largely of cities having populations of under 50,000 that could receive funding only through a competitive process. Funds were awarded at HUD's discretion after it considered applicant proposals. Known initially as the discretionary grant program, the program evolved into the current Small Cities Program. Annual entitlement grants were made to cities with populations of over 50,000, central cities of standard metropolitan statistical areas, and some urban counties with populations of over 200,000.

Subsequent amendments to title I made a number of changes to the program. For example, the Housing and Community Development Act of 1977 (Public Law 95-128) redesignated the discretionary grants portion of the program to what is known today as the Small Cities Program. This act also authorized HUD to make two types of programs available to small cities--comprehensive and single-purpose grants. Comprehensive grants involve commitments, for periods of up to 3 years, to carry out two or more activities that address a substantial portion of community development needs within a reasonable period of time. Single-purpose grants are for one or more projects that consist of one activity or a set of activities to meet a specific community development need.

Before the Omnibus Budget Reconciliation Act of 1981 was passed on August 13, 1981, two States--Kentucky and Wisconsin--participated in a HUD-authorized demonstration to test States'

³In Kentucky, State funding data are compared with 1980 HUD data--the last year HUD administered the program. In 1981, Kentucky participated in a HUD demonstration program under which the State administered the program.

ability to administer the Small Cities Program. The demonstration was undertaken to determine whether an expanded role for States in the Small Cities Program would increase the effectiveness of the block grant program in meeting the needs of distressed areas and low- and moderate-income people. Kentucky and Wisconsin were selected from a pool of nine States which applied to participate in the demonstration primarily because they had the staff and resources to carry it out and had a record of State activities that were compatible with the objectives of the Small Cities Program. According to HUD, the results of the demonstration indicated that the States were capable of administering a Federal community development program with the cooperation of small communities.

Title III of the Omnibus Budget Reconciliation Act of 1981 resulted in substantial revisions to the Small Cities Program. Although the primary objective of carrying out community development activities that principally benefit low- and moderate-income persons remains unchanged, HUD regulations (24 CFR Part 570) on the State-administered program say this overall objective is achieved through a program where the projected use of funds has been developed to give maximum feasible priority to activities which will benefit low- and moderate-income families or aid in the prevention or elimination of slums or blight. The projected use of funds may also include activities which the grantee certifies are designed to meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available to meet such needs.

The 1981 act put State and local officials more clearly at the center of the decisionmaking process and reduced the discretionary power that HUD held over program decisions. Title III gives States the option to assume primary administrative responsibility for the Small Cities Program, including distributing funds under a State-developed program. States are free to develop purposes and procedures for distributing funds as State and local priorities dictate, subject to the objectives and other requirements of the act.

In lieu of preparing a block grant application, the Omnibus Budget Reconciliation Act of 1981 requires each State electing to administer the program to prepare a statement of community development objectives and its projected use of the funds. The projected use of funds shall consist of the method by which States will distribute funds to units of local government. The act provides that each State must certify, among other things, that the projected use of funds has been developed in a way that gives the maximum feasible priority to benefiting low- and moderate-income people or preventing slums and urban blight. The projected use of funds may also include activities certified by the State as being designed to meet community development needs of particular urgency because existing conditions pose a threat to the health

and welfare of the community, and other financial resources are not available to meet those needs. The 1981 act also sets forth specific requirements in order to permit public examination and appraisal of the proposed and final statement of objectives and projected use of the funds, to enhance the public accountability of the States, and to facilitate coordination of activities with different levels of government. The States are required to certify to HUD that they have met these requirements.

If a State elects not to accept primary responsibility for administering the program or if it fails to submit the required certifications, small communities would continue to be eligible to receive small cities grants from the HUD-administered program.

In fiscal year 1982, 36 States and Puerto Rico elected to administer the Small Cities Program. As of August 1983, 46 States and Puerto Rico elected to administer the program for fiscal year 1983. Hawaii, Kansas, and Maryland have decided not to administer the program, while New York needs approval of its legislature before notifying HUD of its intention to administer the program.

As structured under the Omnibus Budget Reconciliation Act of 1981, 30 percent of the funds appropriated to the Community Development Block Grant Program are allocated to the Small Cities Program after deducting funds allocated to the Secretary's Discretionary Fund. After determining the amount of funds available for the Small Cities Program, grants to individual States are calculated on the basis of two formulas that existed under prior law. One formula takes into consideration poverty, population, and overcrowded housing. The other formula considers poverty, population, and age of housing stock. The allocation to each State is based on whichever formula yields a higher level of funds.

In fiscal year 1982, \$1.019 billion was allocated among the 50 States and Puerto Rico for the Small Cities Program compared with about \$926 million in fiscal year 1981.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our primary objectives were to report to the Congress on the States' progress in implementing the Small Cities Program as authorized by the Omnibus Budget Reconciliation Act of 1981 and to provide input to the 1983 reauthorization process on the Community Development Block Grant legislation. This work is part of our ongoing effort to keep the Congress informed of the progress being made in implementing the block grant aspects of the 1981 act.

We performed our work in seven States: Alabama, Delaware, Iowa, Kentucky, Massachusetts, Michigan, and Utah. These States

were selected primarily on the basis of whether or not they had selected grantees for the Small Cities Program and to obtain geographic balance. When we conducted our field work--December 1, 1982, through January 15, 1983--most States were in the early stages of implementing the Small Cities Program. While essentially all seven States included in our review had selected their 1982 recipients, only one had started monitoring grantee projects and some were just completing the grant agreements with the local communities. Accordingly, our work was directed toward reviewing the State decisionmaking process through the selection of grantees.

We took statistical samples of both the grantees and unsuccessful applicant universes in each State in order to determine if the State selected grantees in accordance with what it told HUD in its statement of objectives and in accordance with the criteria set up for that purpose. We also sent questionnaires to the sample groups of 209 of 449 grantees and 245 of 1,150 unsuccessful applicants in the States to obtain communities' perceptions of the State-administered program. The sampling errors for the questionnaire data in this report are no greater than plus or minus 6 percent for the total grantee sample and 7 percent for the total unsuccessful applicants sample, at the 95-percent confidence level. The results presented in this report represent responses weighted to reflect the responses of the population sampled.

In each State, we also met with State, HUD field, and public interest group officials to obtain their perceptions on the State-administered program compared with the previous HUD-administered program. In addition, we gathered detailed information from all of the grantee applications funded under the State program and the previous HUD-administered program in order to compare the two programs.

On August 17, 1983, we met with the Assistant Secretary for Community Planning and Development and other HUD officials and obtained their comments on this report.

Our review was made in accordance with generally accepted government auditing standards. See appendix II for additional information on our objectives, scope, and methodology.

CHAPTER 2

STATES' DECISIONMAKING PROCESSES PROVIDED

OPPORTUNITIES FOR PUBLIC PARTICIPATION

Although States have been provided greater flexibility under the Small Cities Program, they must also comply with a variety of legislative requirements intended to foster and assure accountability to citizens and political subdivisions. One of these requirements, public participation, helps to assure that program decisionmaking and implementation proceeds in an open and fair manner. Consequently, the methods States used to meet public participation certifications are of great interest to the Congress.

We reviewed the decisionmaking process States used to design their Small Cities Program to determine how the States met public participation certifications. Specifically, we looked at how local governments and citizens were provided an opportunity to participate in designing the States' Small Cities Programs and also the role local citizens played in identifying local community development needs.

All seven States used a variety of methods to distribute program information, and solicit and obtain input from local governments and citizens. These methods included advisory groups, public hearings, direct mailings, distribution through regional planning agencies, newsletters, direct contacts, newspapers, and radio announcements. Furthermore, most of the grantees and unsuccessful applicants responding to our questionnaire said that the State asked for and was provided suggestions on how to develop and carry out the Small Cities Program. They also indicated that the communication that took place between the State and local community prior to implementation of the program was adequate. In addition, citizen input played an important role in determining the needs of local communities that received a grant, and most had a formal needs assessment conducted.

Part of each State's decisionmaking process also includes preparing a statement of community development objectives and projected use of funds, which is the method States will use to distribute funds to local government units. This statement is provided to HUD and made available for public examination. We found that in implementing the Small Cities Program, States distributed funds in accordance with the procedures outlined in their statements of objectives. They also generally followed the criteria they established to select individual projects for funding. Methods for distributing funds differed, and the States developed a number of different approaches to select specific projects for funding, most of which were on a competitive basis.

STATES DESIGNED THEIR PROGRAMS
EMPHASIZING PUBLIC PARTICIPATION

In designing their programs, all seven States used a variety of methods to meet the public participation certifications required by Title III of the Omnibus Budget Reconciliation Act of 1981. The act requires each State to certify that, among other things, it

- furnished citizens information about the amount of funds available for proposed community development and housing activities, and the range of activities that may be undertaken;
- allowed affected citizens or, as appropriate, units of local government the opportunity to examine and comment on proposed statements of community development objectives and projected use of funds;
- held at least one public hearing to obtain the views of citizens on community development and housing needs; and
- made the final statement available to the public.

How public participation
certifications were met

To meet the first two public participation certifications they made to HUD, most of the States we visited used a combination of methods to distribute required program information and to solicit and obtain comments. These methods included direct mailings to interested parties, distribution through regional planning agencies, newsletters, direct contacts and meetings by State program officials, and newspaper and radio announcements. Michigan, for example, had its 14 regional planning agencies distribute information on its proposed program to local communities. However, it also held public meetings in each of its 14 planning regions to explain the program and to receive suggestions for revisions. These meetings were attended by local government officials, interested individuals and groups, private organizations, and consultants. Michigan also used news releases, newspaper advertisements, and a newsletter to alert the public on where to examine and comment on its program.

Other States used some of the same methods to distribute information and solicit comments as Michigan did. Massachusetts, for example, used direct mail to distribute its program design and solicit comments. It also sent newsletters about the program to interested parties throughout the State. Delaware distributed its proposed program design to all eligible local and county governments for review and comment, and made it available to the

public at the State's Division of Housing. The public was notified of the availability of the proposed program for review and comment through notices in newspapers.

All seven States visited also certified that they held at least one public hearing to obtain citizen views on community development and housing needs. Utah held eight public hearings in its planning districts to present details on its proposed program and to receive citizen comments. It also held 12 public meetings to obtain public input in designing its program. Other States holding more than one public hearing were Alabama (3), Iowa (5), and Michigan (6). Michigan also held workshops in each of its 14 planning regions to explain its program and to obtain suggestions for program revision. Delaware, Kentucky, and Massachusetts each held one public hearing. Delaware and Kentucky, however, also held public meetings to discuss their program and receive suggestions for change.

The grantee and unsuccessful applicant responses to our questionnaire on the Small Cities Program showed that the States actively solicited input from local communities in designing their programs. Seventy-seven percent of the grantees and 57 percent of the unsuccessful applicants told us that the State asked for their suggestions on how to formulate and carry out the Small Cities Program. Sixty-five percent of the grantees and 52 percent of the unsuccessful applicants who said they were asked to provide suggestions did so.

The majority of respondents said that the communication that took place between the State and the local community prior to implementing the Small Cities Program was adequate. Sixty-nine percent of the grantees and 64 percent of the unsuccessful applicants characterized the communication as adequate. Nineteen percent of the grantees and 8 percent of the unsuccessful applicants said the communication was more than adequate, while 8 percent and 19 percent, respectively, said it was less than adequate. Four percent of the grantees and 10 percent of the unsuccessful applicants said they had no basis on which to make a judgment.¹

In order to fulfill their public participation certification requirements, the States also made their final statements of community development objectives and projected use of funds available to the public. To make this certification, the States, among other things, made copies of their statements available at appropriate State offices, distributed copies directly to eligible communities and other interested parties, or made them available at workshops to inform interested parties about the program.

¹In presenting questionnaire data throughout this report, percentages of respondents may not total 100 because of rounding.

How the States designed their programs

Six of the seven States reviewed relied on an office or agency within the State government to design the State-administered Small Cities Program, and five of the six used advisory groups to assist in the design development. One State, however, used a different approach and hired a consultant to develop its initial program proposal.

Massachusetts provides a good example of the approach generally taken. Its Executive Office of Communities and Development was primarily responsible for the program design. The office established a Small Cities Advisory Task Force to provide assistance and ensure that the ideas of local communities and other interested parties were integrated into the design. The task force included representatives from (1) eight small city governments, (2) a private citizen housing and planning association, (3) two regional planning agencies, (4) the Massachusetts legislature, and (5) the State's chapter of the National League of Cities. Working with the task force, the office established program objectives, priorities, and eligible activities. The two also developed the program's application format and procedures, eligibility criteria, and distribution methodology (review and selection process). In addition, the task force met informally with local community officials to solicit their views on the program design.

The approaches used by Alabama, Iowa, Kentucky, and Utah to draft the initial design of their programs were similar to Massachusetts' and included using advisory groups consisting of community development experts, local elected officials, or other interested parties. Alabama and Kentucky used a technical advisory committee to help develop the technical aspects of the design, including the selection and distribution criteria, and a policy advisory committee to review and fine tune the program from a broader policy point of view. In Michigan, the State Department of Commerce designed the program, but did so without assistance from an established advisory group. However, Michigan consulted its 14 regional planning agencies in developing its program design, and received direction from the Governor and the State legislature.

Delaware used a different approach in initially designing its proposed Small Cities Program. The Delaware Division of Housing, unlike the other States, hired a consultant to evaluate the State's community development needs and to design a program to fit the needs and objectives of the State. This initial plan then served as the basis for developing the program Delaware implemented in 1982. The plan developed by the consultant was presented at a "design forum" set up to discuss the plan and applicable issues and available options. Attendees at the forum included officials and staff from all eligible municipalities and

counties. On the basis of the forum's results and subsequent discussions with local officials, the Division of Housing revised the proposed program prior to distributing it for public review and comment.

HUD's role in each State varied, but, except for Kentucky (where it worked more closely with the State), HUD primarily provided technical assistance on an as-needed basis. HUD's more extensive assistance to Kentucky carried over from the demonstration program (see p. 2) the State participated in to test States' ability to administer the Small Cities Program. Kentucky began to develop its 1982 program in May 1981 under the assumption that it would continue the demonstration. State officials worked closely with HUD in developing and revising the program to meet its needs. Frequent informal consultations took place throughout the design process and when completed, HUD area and headquarters officials reviewed and commented on the proposed program design.

In Alabama, Delaware, Michigan, and Iowa, HUD provided technical assistance and advice on a continuing as-requested basis throughout the design process. In some instances, HUD also sponsored or assisted in meetings to help design the program or to discuss the proposed program and its requirements. HUD played a very minimal role in designing Massachusetts' program. It consisted primarily of reviewing the proposed program statement of objectives and projected use of funds and suggesting minor changes. HUD had the least involvement in Utah, where it took a "hands off" approach and, according to a State program official, did not have any contact with the State as it prepared the program design.

Citizen input in determining local community development needs

The responses to our questionnaire also showed that citizen input played an important role in helping local community grantees determine their community development needs. Eighty-eight percent of the grantees said that they used input from participants that were not part of the community government in developing plans for carrying out projects and activities under the Small Cities Program. Forty-one percent of the grantees said that individual citizens participated in the determination of its community development needs, and 27 percent also cited citizen groups' involvement. Others cited frequently as helping to determine local needs were consultants or contractors (42 percent), council of governments (39 percent), regional advisory councils (25 percent), and county officials (23 percent). Fifty-six percent of the grantees stated that input into the local decisionmaking process from these citizens and groups was obtained through public hearings; 61 percent also said input was obtained through meetings open to the public.

In order to help identify local community development needs, 80 percent of the grantees also said that a formal assessment of such needs was conducted prior to submitting their grant applications to the State for funding. Of these grantees, 56 percent said that the community government conducted the needs assessment, 29 percent said that it was performed by a consultant or contractor, and 8 percent cited the county government.

STATES ADHERED TO THEIR FUNDING
DISTRIBUTION METHODS AND SELECTION CRITERIA

Our review of a statistical sample of the grantee and unsuccessful applications for Small Cities Program funds showed that all seven States distributed funds in accordance with the procedures outlined in their statements of objectives. The seven States developed a number of different methods for distributing program funds and generally followed the criteria they established for selecting individual projects--most of which were on a competitive basis.

Initial allocation of funds

Five of the seven States we reviewed earmarked their Small Cities Program funds for specific funding categories before they decided which projects to fund. The other two States--Delaware and Massachusetts--did not earmark funds for specific funding categories prior to making project-specific funding decisions. Rather, all funding applications, regardless of project type or geographic area, competed against each other for their respective State's Small Cities Program funds. Regardless of the allocation method used, all seven States adhered to the methods described in the program designs they submitted to HUD.

Kentucky and Michigan allocated the majority of their funds to project categories that reflected their States' priorities before they made specific funding decisions. Kentucky earmarked 55 percent of its funds for housing rehabilitation and public facility projects, and 35 percent for economic development projects. On the other hand, Michigan earmarked 65 percent of its funds for economic development and public works projects and 31 percent for housing projects, thus reflecting the State's priorities as established in its program design.

Utah and Iowa chose to allocate their funds on the basis of geographic location, rather than project type. Utah divided its funds among its seven planning districts so that each district received an equal base amount plus an additional amount for each person in the eligible communities. Iowa divided its funds between two basic groups--small cities and larger cities, allocating 35 percent of its funds to the former and 65 percent to the latter.

Alabama distributed its funds on the basis of both project type and geographic area. In addition to the allocation for State administration and prior HUD commitments, Alabama established a Governor's discretionary fund and five categories of funding--economic development, planning, county, large city, and small city.

Award decisions

The seven States we reviewed generally followed their established selection criteria, although the methods and complexity of review and selection procedures varied considerably from State to State. In making award decisions, all used either competitive selection processes or adopted a combination of competitive and discretionary processes.

Four of the seven States--Delaware, Iowa, Utah, and Massachusetts--made all their award decisions on a competitive basis. For example, in Delaware all applications competed against each other and were reviewed and rated by a five-member committee of State agency staff. The committee determined which applications best met program objectives by awarding points based on four general areas--need, impact, benefit to low- and moderate-income persons, and past performance. First, each application was rated on how well it met these factors, considering all the application's activities as a whole. Specific activities within the application were then individually evaluated to determine which were critical. Those activities determined to be most critical were funded, with funding levels reviewed for reasonableness. Finally, ratings were revised for applications with similar activities to ensure consistency.

Iowa adopted a selection process which was similar to Delaware's. The primary difference between these States' selection methods was that each Delaware application competed against all other applications in that State, while Iowa's applications competed only within their designated funding category. For instance, in Iowa, smaller city applications competed only against other smaller city applications.

Utah and Massachusetts also relied on competitive processes in making all their award decisions. In Utah, the State's seven planning districts established 10 distinct review boards (six of the seven districts each established one review board, while one district established four review boards), with each employing its own competitive selection method. In general, each of the review boards, primarily composed of elected local officials, evaluated all project applications from within its own geographic area. In Massachusetts, a two-phased process was employed. Only those applications successfully competing in the preapplication phase were invited to submit a final application.

The remaining three States--Michigan, Kentucky, and Alabama--decided which projects to fund through both competitive and noncompetitive selection processes, depending on the type of project under review. For example, Michigan developed a competitive process for selecting housing projects and a noncompetitive process for selecting economic development and public works projects, although numerical scores were used in evaluating all three project categories. Housing projects were reviewed and competitively ranked by an independent State agency which then sent funding recommendations to the State agency administering the program for final review and approval. Public works projects were selected through the same noncompetitive process as economic development projects and were funded from money earmarked for economic development. Applications for both were accepted continuously and reviewed by State agency review teams and an executive committee. These applications were neither ranked nor selected competitively. Rather, funds were awarded on a discretionary, case-by-case basis, with final determinations made by the agency director. Nonetheless, each application had to meet the agency standards which were reflected in its criteria for economic development projects.

Although the details of Kentucky's selection process differed from Michigan's, it also adopted a competitive point system for rating housing projects, and a noncompetitive method for selecting economic development projects. Kentucky used competitive approaches to select both housing and public facility projects that included site visits to the top-rated projects. Projects could be downgraded as a result of these visits, but not upgraded. The State developed more flexible noncompetitive procedures for selecting economic development projects and allocated funds for this project category quarterly. Rather than rate these applications competitively, the staff used the State's criteria for economic development projects in reviewing these applications, and presented them monthly to a panel of economic development experts from the State government and the private sector.

In Alabama, award decisions were made competitively in its five funding categories, while decisions regarding the Governor's discretionary fund were made on a noncompetitive basis. Applications for the Governor's discretionary fund were reviewed and selected by his office, and were awarded to (1) activities satisfying an urgent need, (2) exceptional economic development projects that might be lost if not funded, and (3) activities at the general discretion of the Governor. Although the State had no quantifiable rating system for making these selections, all had to comply with overall program objectives and State goals, thresholds, and policies.

CONCLUSIONS

In designing their Small Cities Programs, the seven States we reviewed used a variety of methods to meet the public participation certifications required by the Omnibus Budget Reconciliation Act of 1981. Six States--Alabama, Iowa, Kentucky, Massachusetts, Michigan, and Utah--used an agency or office within the State government to design the initial program, and, except for Michigan, either established or used existing advisory groups to assist in its development. Michigan consulted with regional planning agencies in designing its program. Delaware, on the other hand, hired a consultant to develop its initial design. Several methods, including direct mail, distribution through regional planning agencies, newsletters, direct contacts and meetings, and newspaper and radio announcements, were used to provide information about the proposed programs to citizens, as well as to allow affected citizens and local governments the opportunity to review and comment on the program. Each State held at least one public hearing to solicit public comments, and citizen input also helped local communities determine their community development needs. All seven States made the final program design available to the public for review.

Five of the seven States--Alabama, Iowa, Kentucky, Michigan, and Utah--designed their programs to divide their Small Cities Program funds among various funding categories prior to determining specific projects to fund. The other two States--Delaware and Massachusetts--did not predetermine what funding would be available for various types of projects. In these States, all projects competed against each other for Small Cities Program funds.

The States also designed their programs to select specific projects for funding through competitive and discretionary means. Four of the seven States--Delaware, Iowa, Massachusetts, and Utah--established competitive processes to select individual projects, and the other three States--Alabama, Kentucky, and Michigan--depending on the type of project, used either a competitive or discretionary process to determine which projects to fund. All seven States followed their program designs in distributing funds and selecting projects for funding.

CHAPTER 3

CHANGES RESULT FROM STATE AND LOCAL DECISIONMAKING

An objective of block grant legislation is to provide States with greater flexibility and authority to determine their needs, set program priorities, and distribute funds. Thus, it is assumed that programs can be better tailored to meet local needs.

In order to identify the changes that occurred from a State and local decisionmaking process as opposed to a Federal decisionmaking process, we compared each State-administered program with the previous HUD-administered program.¹ The following changes have occurred:

- In five of the seven States, the amount of housing rehabilitation funded decreased as a percentage of the total funds awarded. The decreases ranged from 7 percentage points in Alabama to 31 percentage points in Iowa. In three of the five States (Alabama, Iowa, and Utah) a shift took place from housing rehabilitation to public facilities. In the other two States (Kentucky and Michigan), a shift took place from housing rehabilitation to economic development.
- In six of the seven States, grants were supplemented by \$281 million more in local, State, private, and/or other Federal funds than grants funded under the HUD-administered program.
- All seven States awarded, on average, smaller grants than HUD, and five States (Alabama, Delaware, Iowa, Michigan, and Utah) awarded more grants with the funds they controlled.

The reasons for differences in each State between the HUD- and State-administered programs were not always identifiable. However, in some of the States, the differences were clearly attributable to the flexibility the 1981 act gave States and the actions States took in designing their programs and method(s) for distributing the funds to meet local community development needs.

¹For the purposes of our comparisons we did not include those funds that were part of the State's allocation but were committed to past HUD-approved, multiyear grants because the State did not have control over the money. States had to agree to fund the multiyear grants as a condition to taking over the Small Cities Program. See tables 1 through 7, app. I, pp. 38 to 44 for a State/HUD comparison of funding.

We also found that on the basis of the States' and HUD's grantee application data, six of the seven State-administered programs differed from the previous HUD-administered program in that the expected percentage of targeted beneficiaries who were low- and moderate-income persons declined. In Massachusetts, it declined 6 percentage points, in Utah 12 percentage points, in Alabama 13 percentage points, in Kentucky 13 percentage points, in Iowa 15 percentage points, and in Michigan 19 percentage points. In Delaware, the percentage of low- and moderate-income persons reported as being targeted under the State program increased 1 percentage point. These differences may reflect the shift in funding from housing activities to public facilities and economic development.

It is too early to determine the precise impact of the differences because the data represent how communities plan to use funds. Data representing how the funds were actually spent were not available when our field work was conducted. While States had not finalized their reporting requirements, efforts initiated by the Council of State Community Affairs Agencies,² were underway to develop a uniform State reporting format for the Small Cities Program that will include actual data on benefits to low- and moderate-income persons.

MAJOR ACTIVITIES FUNDED UNDER HUD'S 1981 PROGRAM AND STATES' 1982 PROGRAMS

All seven States funded activities in 1982 that generally reflected their program objectives and/or priorities. Activities collectively receiving the greatest percentages of funds under the HUD- and State-administered Small Cities Programs were public facilities, housing rehabilitation, and economic development, in that order. However, when comparing the HUD- and State-administered funding in each State, several differences occurred under the State-administered programs--the most common being a decrease in housing rehabilitation. The following show the funding changes as a percentage of total funds awarded under the State-administered programs compared with the previous HUD-administered program:

--Utah's housing rehabilitation decreased 15 percentage points (from 17 to 2). Funding shifted primarily to public facilities. (See table 7, app. I, p. 44.)

²The Council of State Community Affairs Agencies is a nonprofit organization formed in 1974 to promote the common interests and goals of States, with major emphasis in the area of comprehensive community development. Membership consists of executive heads of State Community Affairs Agencies.

- Alabama's housing rehabilitation decreased 7 percentage points (from 22 to 15). Funding shifted primarily to public facilities. (See table 1, app. I, p. 38.)
- Iowa's housing rehabilitation decreased 31 percentage points (from 40 to 9). Funding shifted primarily to public facilities. (See table 3, app. I, p. 40.)
- Michigan's housing rehabilitation decreased 16 percentage points (from 47 to 31). Funding shifted primarily to economic development. (See table 6, app. I, p. 43.)
- Kentucky's housing rehabilitation decreased 17 percentage points (from 28 to 11). Funding shifted primarily to economic development. (See table 4, app. I, p. 41.)

Other shifts in percentages of total funds awarded were noted in Massachusetts' funding of public facilities, which decreased 16 percentage points (from 33 to 17); funding shifted primarily to economic development. Delaware's public facilities funding decreased 24 percentage points (from 46 to 22); funding shifted primarily to housing rehabilitation. Finally, Utah's economic development decreased 49 percentage points (from 51 to 2); funding shifted primarily to public facilities.

The reasons for shifts in funding activities were not always identifiable. However, in some instances, the shifts appeared to reflect the States' desire in designing their programs to address what they considered to be their greatest needs. For example:

- In Kentucky, where funding shifted from housing rehabilitation to economic development, the State emphasized economic development by allocating 35 percent of the uncommitted Small Cities Program funds to these types of projects. State officials administering the program told us the emphasis on economic development reflected an established State priority and was intended to create and retain jobs.
- In Michigan, like Kentucky, where funding also shifted from rehabilitation activities to economic development activities, the State emphasized economic development in its program design. Michigan established priorities to encourage economic growth and allocated \$14 million (nearly half) of its funds to economic development projects.
- In Iowa, the shift from housing rehabilitation to public facilities may reflect a difference in the project selection systems in how points were awarded for benefits to low- and moderate-income persons. Both rating systems included up to 200 points for benefits to low- and moderate-income persons. Under the HUD program, an

applicant had to show a 100-percent benefit to receive the maximum 200 points. Housing activities, where direct beneficiaries can be readily identified, were the easiest way to show a 100-percent benefit to low- and moderate-income persons compared with activities such as public facilities--streets, sewers, et cetera. Under the State program, an applicant can get the maximum 200 points by showing a 66-2/3-percent benefit to low- and moderate-income persons for project activities, thus making it easier for public facility projects to compete with housing rehabilitation projects.

--In Alabama, the shift from housing rehabilitation to public facilities may reflect the different low- and moderate-income benefit requirements established as part of the program design. For public facilities projects, at least 50 percent of the beneficiaries had to be low- and moderate-income persons, while for direct housing program assistance, 100 percent of the beneficiaries had to be low- and moderate-income persons.

The decreases in housing rehabilitation activities and expected benefits to low- and moderate-income persons do not necessarily mean that fewer dollars were to be spent on housing rehabilitation activities or on benefits to low- and moderate-income persons, since generally, State Small Cities Program grants were supplemented with substantially more funds than HUD Small Cities Program grants. In six of the seven States, grants funded under the State-administered programs were supplemented by substantially more local, State, private and/or Federal funds than grants funded under the HUD-administered program. The following table compares, in each State, the number of grants involving other funds and the amount of other funds under the HUD-administered and the State-administered programs. See tables 1 through 7, appendix I, pages 38 to 44 for a detailed breakout of other funding by State.

<u>State</u>	<u>HUD-administered</u>		<u>State-administered</u>	
	<u>Number of grants</u>	<u>Amount of other funding (million)</u>	<u>Number of grants</u>	<u>Amount of other funding (million)</u>
Alabama	14	\$ 2.8	94	\$ 16.7
Delaware	1	.1	0	0
Iowa	17	3.7	66	6.5
Kentucky	24	13.2	45	139.3
Massachusetts	10	8.3	30	25.1
Michigan	4	.6	77	119.5
Utah	<u>3</u>	<u>2.3</u>	<u>52</u>	<u>5.2</u>
Total	<u>73</u>	<u>\$31.0</u>	<u>364</u>	<u>\$312.3</u>

Those Small Cities Program grants which were supported by other funds under the HUD-administered program were most often supported by Federal funds, whereas the States' grants were most often supported by private funds. Of the \$31 million which supported HUD's grants, 45 percent came from other Federal funds, 23 percent from State funds, 14 percent from local funds, 13 percent from private funds, and 5 percent from funds whose source(s) we could not readily identify. Of the \$312.3 million in other funds which supported the States' Small Cities Program grants, 71 percent came from private funds, 12 percent from local funds, 9 percent from Federal funds, and 8 percent from other State funds.

Alabama, Iowa, Massachusetts, and Michigan encouraged the use of other funds to supplement the community development projects by awarding extra points to such projects. Kentucky used other funding sources as one of the criteria that had to be met for economic development projects. Infusion of other funds was also part of the financing element of Kentucky's criteria used to rate housing and public facility projects. In Utah, four of the planning districts included the amount of local funds committed as part of the criteria used to rate applications.

As the following table shows, all seven States awarded grants that, on average, were smaller than those awarded by HUD. Also, five States--excluding Kentucky and Massachusetts--awarded more grants. If the past HUD-approved multiyear grants the States funded are counted in comparing the number of awards made, Kentucky (18) and Massachusetts (15) also funded more grants.

<u>State</u>	<u>HUD-administered</u>		<u>State-administered</u>	
	<u>Number of grants</u>	<u>Average size of award</u>	<u>Number of grants</u>	<u>Average size of award</u>
Alabama	59	\$459,624	105	\$161,544
Delaware	6	239,000	13	119,674
Iowa	60	374,965	79	196,149
Kentucky	49	572,070	46	335,917
Massachusetts	42	540,095	31	440,706
Michigan	47	459,319	88	235,475
Utah	8	466,250	87	47,721

The smaller awards and greater number of grantees generally reflect actions the States took to increase participation from a greater number of communities. For example:

--One of Alabama's program policies was to facilitate funding of a larger number of applications by lowering the grant ceiling and eliminating new multiyear commitments. The State also allocated some of its funds to small cities, large cities, and counties as well as to different types of activities.

--Iowa established an objective to increase the number of grant recipients. It established a \$1,000-per-resident limit on awards and a maximum single-year grant amount of \$500,000, whereas HUD allowed grants of up to \$800,000. Iowa also set up separate funding categories for small and large communities.

--In Michigan, many of the smaller grants were start-up/planning grants for economic development.

--In Utah, the differences in the number and size of awards granted, compared with the previous HUD program, were attributed to the State's method of allocating the funds to seven planning districts. Also, six of the seven districts took steps to ensure that each county in their jurisdictions received some funds.

BENEFITS TARGETED TO LOW- AND MODERATE-
INCOME PERSONS UNDER THE 1982 STATE
PROGRAMS VERSUS THE PREVIOUS HUD PROGRAM

The primary objective of the community development block grant legislation is to have grantees carry out community development activities that principally benefit low- and moderate-income persons. A comparison of grantee application data for the State programs and the previous HUD program showed that, in six of the seven States, the State programs' approved projects were expected to benefit fewer low- and moderate-income persons than the previous HUD program did.

Under the State programs, the percentage of expected beneficiaries who were low- and moderate-income persons, as shown on approved project applications, was less in six States than under the previous HUD program. For example:

--Massachusetts decreased 6 percentage points (from 90 to 84).

--Utah decreased 12 percentage points (from 71 to 59).

--Alabama decreased 13 percentage points (from 95 to 82).

--Kentucky decreased 13 percentage points (from 85 to 72).

--Iowa decreased 15 percentage points (from 91 to 76).

--Michigan decreased 19 percentage points (from 91 to 72).

For approved projects in Delaware, the percentage of expected beneficiaries who were low- and moderate-income persons increased from 94 to 95.

The decreases in the expected percentage of beneficiaries who were low- and moderate-income persons may have resulted from the shift in the percentage of funds allocated from housing rehabilitation to either public facilities or economic development in five of the seven States. (See p. 16.) Housing rehabilitation activities can be specifically targeted to low- and moderate-income persons in that only those dwellings that house such persons in an area or community need be included in the rehabilitation project.

On the other hand, projects that benefit the public--community centers, sewer and water improvements, streets, et cetera--by their nature, ordinarily serve whole geographic areas, and individual households benefit because they reside in these areas. Thus, the percentages of persons benefiting from these types of projects who are of low- and moderate-income would reflect the established demographics of an area. While these projects may also serve high percentages of low- and moderate-income persons, they are more difficult to target.

It also should be noted that in Kentucky and Alabama, the lower income benefit data for some projects were reported only as minimum percentages. For example, in Kentucky some of the grantees requesting funds for economic development projects stated only that at least 51 percent of those benefiting would be low- and moderate-income persons. Furthermore, seven Kentucky grantees did not provide information on income characteristics and beneficiaries. Also, in two other States, data on benefits to low- and moderate-income persons were not provided or were incomplete. Out of 88 grantee applications in Michigan, such data were not provided on 19 applications, most of which were applications for planning grants. In Utah, data were not provided on 8 applications and were incomplete on 26 others.

Also, the data used to compare the State and HUD programs were taken from grantees' applications on how cities planned to spend their block grant funds rather than how they actually spent the money. Therefore, the data only provide an indication of actual benefits. We believe actual benefit data should be used in measuring benefits to lower income persons from block grant assistance. In a recent report to the Congress "HUD Needs to Better Determine Extent of Community Block Grants' Lower Income Benefits" (GAO/RCED-83-15) on the entitlement Community Development Block Grant Program, we said HUD should use actual data as a basis for reporting benefits to lower income people.³ In

³In responding to the recommendation as required by Section 236 of the Legislative Reorganization Act of 1970, HUD said it agreed with the recommendation. HUD noted, however, that the Department has provided the Congress with expenditure or "actual benefit" information in recent annual reports submitted to the Congress.

subsequent testimony before the Subcommittee on Housing and Community Development, House Committee on Banking, Finance and Urban Affairs, on December 7, 1982,⁴ we said that the Housing and Community Development Act of 1974, as amended, requires HUD to report to the Congress after each fiscal year on the progress made in accomplishing program objectives. We also said that for this report to be meaningful, HUD must have timely and reliable information on program accomplishments. We added that reporting planned rather than actual benefits and not reporting the extent to which a grantee's overall program benefits lower income persons diminishes the usefulness of HUD's annual report to the Congress. Lastly, we said that the most efficient way to collect the data needed for HUD's annual report to the Congress is to collect it uniformly at the local level by grantees who implement the program.

ACTION BEING TAKEN TO DEVELOP UNIFORM
REPORTING OF PROGRAM ACCOMPLISHMENTS

HUD regulations (24 CFR Part 570) on the State-administered program (1) do not specify whether actual versus planned benefits to low- and moderate-income persons should be reported and (2) are unclear as to whether States need to report data on how their overall program benefited low- and moderate-income persons. The States we visited had not finalized their reporting requirements, and officials from four of the seven States said further guidance was needed from HUD on reporting requirements.

In January 1983, the Council of State Community Affairs Agencies began a project to develop a uniform State reporting format for the State-administered Small Cities Program. More recently, the House and Senate legislative committees approved bills (1) reemphasizing that the primary objective of the act is to carry out community development activities that principally benefit low- and moderate-income persons and (2) setting forth more specific requirements on reporting benefits to low- and moderate-income persons.

HUD regulations are not specific
on whether States should report
actual, overall program benefits
to low- and moderate-income persons

HUD regulations on the State-administered Small Cities Program Section 570.498 state that:

⁴See December 7, 1982, statement of Harry S. Havens, Assistant Comptroller General for Program Evaluation, before the Subcommittee on Housing and Community Development, House Committee on Banking, Finance and Urban Affairs.

"Each State administering grants under this Subpart shall submit to the Secretary a performance report as required by Section 104(d) of the Act [the Housing and Community Development Act of 1974 as amended, 42 U.S.C. 5301, et seq.]. Such report shall be in such form and contain such information (including the assessment required by Section 104(d) of the Act) as the State shall deem appropriate and sufficient to provide an adequate basis for the determinations required to be made by the Secretary pursuant to Section 104(d)(2) of the Act."⁵

Thus, it is left up to each State to determine what data to report, including whether to provide planned or actual data on who is benefiting from the program.

Also, the regulations are not clear as to whether States have to specifically demonstrate in their performance report that their overall program meets the primary objective of the act of principally benefiting low- and moderate-income persons. The lack of clarity lies in what HUD has identified as being primary and national objectives and how those objectives are met. Section 570.489 of the regulations outlines the primary objectives of the act and how those objectives are achieved as follows:

"Section 101(c) of the Act establishes as its primary objective '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.' This overall objective is achieved through a program where the projected use of funds has been developed so as to give maximum feasible priority to activities which will benefit low- and moderate-income families or aid in the prevention or elimination of slums or blight; the projected use of funds may also include activities which the grantee certifies are designed to meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available to meet such needs."

This language combines Section 101(c), which establishes the primary objective of the act, and Section 104(b), which requires

⁵Section 104(d)(2) says the Secretary must determine if the State has (1) distributed funds in a timely manner and in accordance with its statement of objectives, (2) complied with its certifications, and (3) made the necessary and appropriate reviews of grantees.

grantees to certify that the projected use of funds has been developed to give maximum feasible priority to activities that:

- will benefit lower income persons,
- will aid in the prevention or elimination of slums or blight, or
- are designed to meet other community development needs having particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available to meet those needs.

HUD refers to these as the program's three broad national objectives, although the act does not specifically identify them as objectives.

HUD used the same interpretation as above when it published the proposed regulations on the entitlement block grant program on October 4, 1982. The proposed regulations stated that when a grantee's individual activities meet one of the three broad national objectives, its program will have complied with the act's primary objective. The proposed regulations also eliminated HUD's review to determine the extent to which a grantee's overall program benefits low- and moderate-income persons. Public interest groups and associations concerned with the direction of the program immediately raised objections to the regulations because it was perceived as a shift away from targeting the program to low- and moderate-income persons.

On December 7, 1982, the Subcommittee on Housing and Community Development, House Committee on Banking, Finance and Urban Affairs held hearings on the proposed regulations. In addition to HUD, representatives from several groups and associations testified opposing various parts of the regulations but, in particular, the language which appeared to deemphasize the primary objective of the act--principally benefiting low- and moderate-income persons. We also testified (see footnote on p. 22) that we believed the proposed changes would make it easier for grantees to shift their programs' targeting away from lower income persons if they should wish to do so. We also said HUD would have difficulty in determining whether or not such a shift has occurred since neither the grantee's certifications nor the HUD review would provide detailed benefit information for the overall program.

As of late August 1983, HUD was completing its final review of the proposed entitlement regulations and, according to the Director of the Office of Block Grant Assistance, some changes would be made to address the concerns expressed. In discussing the results of our review, HUD's Director, Small Cities Division,

Office of Block Grant Assistance, told us there are no plans to clarify HUD's Small Cities Program reporting requirements at this time, including whether States must report (1) actual rather than planned benefits to low- and moderate-income persons, and (2) how the program, as a whole, benefits low- and moderate-income persons. He said HUD expects States to demonstrate how their funded activities address the specific national objective(s) for which they were approved, and not necessarily all three national objectives. For example, HUD does not expect States to demonstrate how slum and blight activities benefited low- and moderate-income persons. He added, however, that States, for the most part, do plan on reporting low- and moderate-income benefit data on all activities, anyway. He further stated that if pending legislative proposals are enacted as presently written, it will be necessary to revise the Small Cities Program regulations.

States and congressional committees
move ahead to improve reporting on the
Small Cities Program

At the time of our visits, none of the States had finalized their reporting requirements, and officials from four States said further guidance was needed from HUD. Meanwhile, in January 1983, the Council of State Community Affairs Agencies established a task force made up of representatives from eight States and one Council staff member to study the reporting requirements for the State Small Cities Program. The task force was responsible for developing recommendations for the type of information States will submit and the format for the required reports. In May 1983, the Council submitted the final outline for performance reporting to its 47 members. The Council task force member told us that while members are not required to follow the format, she anticipated most would.

The outline provides for reporting the number and percentage of low- and moderate-income persons and other populations benefiting from the program. It also provides for showing the dollar amount and percentage of funds going towards low- and moderate-income persons and other populations. Although the outline does not specifically state that actual benefit data should be shown, the Council task force member said she expects States to report actual benefit data. She further stated that, at a meeting in June 1983, State representatives said they would be using actual benefit data for reporting on their programs. The outline requests the above data on low- and moderate-income persons and others as the data relate to overall accomplishments of the program.

Legislation has been proposed in both the House and Senate which would reemphasize that the act's primary objective is to carry out community development activities which principally benefit low- and moderate-income persons and which includes specific language that would require more precise reporting on

benefits to low- and moderate-income persons. House bill H.R. 1, reported out of the Committee on Banking, Finance and Urban Affairs on May 13, 1983, says that not less than 51 percent of the Federal financial assistance provided for the Community Development Block Grant Program shall be used for the support of activities that benefit persons of low- and moderate-income. The bill would require performance reports showing the projected and actual benefits to low- and moderate-income persons from the activities funded on a project-by-project basis. On July 13, 1983, House bill H.R. 1 was passed by the House with the above mentioned provisions.

Senate bill S. 1338, reported out of the Committee on Banking, Housing and Urban Affairs on May 23, 1983, strengthens the principal benefit provision and requires grantees to certify that the use of funds taken as a whole over a period of not more than 3 years will principally benefit persons of low and moderate income. The proposal would also require grantees to include in their performance reports an evaluation of the extent to which its programs benefited low- and moderate-income persons. It also states that (1) HUD shall encourage and assist national associations of grantees and States to develop uniform recordkeeping, performance reporting, and evaluation reporting requirements for entitlement cities and States and (2) after approval, the Secretary shall establish such requirements for use by grantees.

CONCLUSIONS

All seven States we visited funded activities that generally reflected their program objectives and/or priorities. Most of the State-administered programs we visited differed from the previous HUD-administered program. The major differences occurred in Alabama, Iowa, Kentucky, Michigan, and Utah in that the amount of housing rehabilitation funded decreased as a percentage of the total funds awarded, and either public facilities or economic development activities increased.

The reasons for differences in each State between the HUD-administered and State-administered programs were not always identifiable. However, in some of the States, the differences were clearly attributable to the flexibility the 1981 act gave States to design their programs and the method(s) for distributing the funds to meet local community development needs.

We also found that in six of the seven States, the State-administered program differed from the HUD-administered program in that the percentage of low- and moderate-income persons expected to benefit from the State-administered programs decreased. These decreases in the percentage of expected beneficiaries who were low- and moderate-income persons may have resulted from the shift in funding from housing rehabilitation activities to public facilities and economic development

activities because housing rehabilitation activities can more easily be targeted to specific groups and/or individuals. Although public facilities and economic development projects may also serve high percentages of low- and moderate-income persons, these projects are more difficult to target because they often provide area-wide benefits.

It is too early to determine the precise impact of the shift in funding activities and in the decrease in benefits to low- and moderate-income persons because the data represent how communities planned to use the funds rather than how the money was actually spent. Our comparisons were based on approved project data from the grantees' applications.

HUD regulations (24 CFR Part 570) on the State-administered Small Cities Program (1) do not specify whether actual versus planned benefits to low- and moderate-income persons is to be reported and (2) are unclear as to whether States need to report data on how their overall program benefited low- and moderate-income persons. In reporting to HUD, we believe State data should cover actual benefits to low- and moderate-income persons and also the extent the overall program benefited such persons. Such information is needed to determine the extent to which the block grant program's primary objective of carrying out community development activities which principally benefit low- and moderate-income persons is being met and for HUD to evaluate and report to the Congress on the overall effectiveness of the program. If the pending legislative proposals are enacted and if States complete their efforts through the Council of State Community Affairs Agencies, there should be a more uniform reporting of actual data on the extent the overall program benefits low- and moderate-income persons than is currently required under HUD's Small Cities Program regulations.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on our report on August 17, 1983, the Assistant Secretary for Community Planning and Development said that HUD generally agreed with most of the findings and conclusions. He said, however, that our conclusion on the need for actual data on the extent States' overall program benefits low- and moderate-income persons to determine whether the Community Development Block Grant Program's primary objective is being met, was not as critical as portrayed in our report. HUD maintains, as it had in commenting on our prior report (GAO/RCED-83-15), that the primary objective can be achieved by funding activities through a program that gives maximum feasible priority to any one of three broad national objectives--(1) benefiting low- and moderate-income persons, (2) aiding in the prevention or elimination of slums or blight, or (3) meeting other community development needs having particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where

other financial resources are not available to meet such needs. HUD expects States to demonstrate how funded activities address one, but not all, of the three national objectives. The Assistant Secretary said that HUD does not, for example, expect States to demonstrate how slum and blight activities benefit low- and moderate-income persons. (See app. IV, p. 49.)

As discussed on page 24, we testified on December 7, 1982, that HUD's interpretation of the way the act's primary objective can be met would make it easier for grantees to shift their programs' targeting away from lower income persons if they wished to do so. We believe that, without actual data on the extent States' overall program benefits low- and moderate-income persons, HUD would have difficulty in determining whether a shift in grantee targeting had occurred.

As discussed on pages 25 and 26, proposed legislation addresses HUD's interpretation and would reemphasize that the act's primary objective is to carry out community development activities which principally benefit low- and moderate-income persons. In this regard Senate bill S. 1338 would require grantees, as part of their maximum feasibility certifications, to certify that the use of funds taken as a whole, over a period of not more than 3 years, will principally benefit persons of low and moderate income. A Senate committee report on Senate bill S. 1338 says this provision was added to reinforce the principal benefit test by overlaying the so called "three-pronged test"-- what HUD calls the three national objectives--with the requirement that the use of funds taken as a whole, over a period specified by the grantee of not more than 3 years, must principally benefit persons of low and moderate income.

CHAPTER 4

STATE-ADMINISTERED PROGRAMS COMPARE FAVORABLY WITH FORMER HUD-ADMINISTERED PROGRAM

A key argument for State administration of the Small Cities Program has been that States are more aware of State and local community development needs than the Federal Government is and that individual State programs can better serve those needs than can a uniform Federal program. In order to determine how well States were administering the Small Cities Program and meeting the needs of local communities, we contacted those most affected by the recent transfer. We asked State and HUD field officials, as well as public interest group officials, to compare their respective State program with the former HUD program. In addition, we sent questionnaires to a sample of both grantees and unsuccessful applicants asking them to assess the State's performance and to compare several aspects of their State-administered program with the former HUD program.

State and HUD Small Cities Program officials, as well as public interest group officials in the States we visited, generally believed that their respective State-administered programs compared favorably with the former HUD program. For the most part, these officials offered positive comments regarding the States' (1) success in encouraging and obtaining public participation, (2) responsiveness to public input, and (3) ability to understand and address communities' needs.

In addition, the majority of officials representing communities that applied for Small Cities Program funds, including those that were successful and unsuccessful in obtaining awards, viewed their State-administered program as adequate or more than adequate in (1) meeting their community's needs through the activities encouraged by their program design, (2) providing helpful technical assistance, (3) providing a fair award process, and (4) various other factors. Furthermore, about half the grantees and about one-third of the unsuccessful applicants believed their State's program had particularly strong aspects, while about one quarter of the grantees and about half of the unsuccessful applicants indicated there were significant shortcomings.

When those who had previously participated in the HUD-administered program compared factors of their State's program with those of HUD's (such as burden of procedures and requirements, program flexibility, and the award process), the majority of grantees and unsuccessful applicants perceived their State's program as being equivalent to or better than HUD's program. While the majority of both respondent groups made comparisons favorable to their State's program, generally grantee responses were even more favorable than the responses of unsuccessful

applicants. The reimbursement, or drawdown, procedure was the only aspect of the States' programs that was generally viewed less favorably than HUD's program.

STATE, HUD, AND OTHER VIEWS
ON STATE AND FORMER HUD PROGRAM

Officials from the State- and HUD-administered programs, as well as from public interest groups, offered primarily favorable opinions of their State-administered programs, and only on occasion did they offer negative comments. A few examples of their comments follow:

- HUD area office officials in Kentucky said that the State's decision to do away with multiyear projects gave its program more flexibility in reacting to communities' changing needs.
- The Executive Director of the Citizens Housing and Planning Association in Massachusetts said the State's technical assistance was better than HUD's, providing communities with considerable correspondence explaining the program, and conducting six training sessions.
- State program officials in Michigan said that because the State program is closer, geographically and politically, to local governments, it is more responsive to local community needs.
- The Executive Director of the National Council on Agricultural Life and Labor Research in Delaware noted that the State's application process was very good, as its forms were relatively easy to complete. However, Delaware should be providing more, and better quality, technical assistance to communities.
- HUD regional officials in Alabama said that the State, in administering its own program, reduced public participation requirements.

VIEWS OF GRANTEEES AND
UNSUCCESSFUL APPLICANTS

The majority of grantees and unsuccessful applicants believed their State program was adequate if not more than adequate in all the areas about which we inquired. Furthermore, the majority of those who compared their State program with the former HUD program generally believed their State's program was equivalent to or better than HUD's.

How adequately do States' program designs meet local community development needs?

Both groups of respondents believed most often that the projects and activities encouraged by their State's program adequately addressed their community's development needs. As the following table shows, 92 percent of the grantees and 66 percent of the unsuccessful applicants considered the State's program to be adequate or more than adequate in this respect.

	<u>Grantee percent</u>	<u>Unsuccessful applicant percent</u>
State, much more than adequate	9	4
State, more than adequate	25	12
State, adequate	58	50
State, less than adequate	5	24
State, much less than adequate	1	3
No basis to judge	3	8

Did communities receive State assistance in preparing grant applications?

Sixty-six percent of the grantees and 44 percent of the unsuccessful applicants reported receiving assistance from their State government in preparing their applications for Small Cities Program funding, and the majority of both groups characterized the assistance as being helpful. Those receiving assistance rated the State's efforts as follows:

	<u>Grantee percent</u>	<u>Unsuccessful applicant percent</u>
Very great help	27	17
Great help	46	30
Moderate help	15	27
Some help	11	19
Little or no help	1	7

Of those who indicated they had received State assistance, about 53 percent of the grantees said they were offered State assistance without requesting it, and 44 percent of the unsuccessful applicants indicated the same.

Fairness of State's award process

Ninety percent of the grantees and 74 percent of the unsuccessful applicants said they were familiar with their State's procedures for awarding Small Cities Program grants. Of those

who were familiar, the majority of respondents considered the process as being fair, as illustrated in the table below:

	<u>Grantee percent</u>	<u>Unsuccessful applicant percent</u>
Very fair	30	9
Fair	55	44
Neither fair/unfair	10	23
Unfair	5	21
Very unfair	-	4

However, in two of the seven States--Massachusetts and Michigan--unsuccessful applicants' perceptions of the fairness of their State's award process were less favorable, or at least less clear. In Massachusetts, 34 percent of the unsuccessful applicants characterized the process as being fair, 29 percent found it neither fair nor unfair, and 37 percent said it was unfair. In Michigan, 27 percent indicated the award process was very fair or fair, 31 percent said it was neither fair nor unfair, and 43 percent found the process unfair or very unfair.

State program strengths

Fifty-two percent of the grantees and 30 percent of the unsuccessful applicants indicated that their State's program had particularly strong aspects regarding its design, award process, and regulations. Furthermore, some of these respondents provided comments on specific strengths of their State's program. Several examples of these comments follow:

Program design

- Flexible and able to meet community needs.
- Good communication between State and local communities.
- Increased community participation.
- Simpler application process.

Award process

- Unbiased point system.
- Fair decisions.

Program regulations

- Simpler and more understandable.
- Streamlined.
- Meet State and local needs.

State program shortcomings

Twenty-three percent of the grantees and 49 percent of the unsuccessful applicants said they believed their State's program had significant shortcomings with respect to its design, award process, and regulations. Some of these respondents provided particular comments regarding shortcomings of their State's program. Several examples of these comments follow:

Program design

- Too much emphasis on poverty areas.
- Penalizes smaller rural communities.

Award process

- Discriminates against smaller communities.
- Too much emphasis on housing rehabilitation.

Program regulations

- Too complex for smaller communities.
- Unclear and more burdensome.

Comparisons of HUD and State programs

Sixty percent of the grantees and 61 percent of the unsuccessful applicants indicated that they previously participated in HUD's Small Cities Program. Of those who had participated in the HUD program, grantees and unsuccessful applicants generally agreed that their State's program was about equal to or better than HUD's program in the following areas:

- Application procedures.
- Eligibility requirements.
- Reporting requirements (grantees only).
- Variety of activities.
- Flexibility in determining population groups.
- Technical assistance (grantees only).
- State priorities.
- Award process.

Close to half the grantees who previously participated in HUD's program said that they had no basis for comparing the promptness of their State's reimbursement process with that of HUD's. However, only one-fifth found their State's process more prompt than HUD's.

Data on the comparison issues that follow were obtained only from those respondents who said they had previously participated in HUD's Small Cities Program.

Application procedures

Sixty-six percent of the grantees and 57 percent of the unsuccessful applicants found their State's application procedures to be less burdensome than HUD's procedures, as shown below:

	<u>Grantee percent</u>	Unsuccessful <u>applicant percent</u>
State procedures much more burdensome	2	4
State procedures more burdensome	5	5
State procedures about equally burdensome	27	35
State procedures less burdensome	47	42
State procedures much less burdensome	19	15

Eligibility requirements

Both grantees and unsuccessful applicants similarly perceived the burden associated with their State's eligibility requirements when comparing them with HUD's. As illustrated below, most respondents believed the State's eligibility requirements were equally difficult or less difficult than HUD's.

	<u>Grantee percent</u>	Unsuccessful <u>applicant percent</u>
State requirements much more difficult	-	6
State requirements more difficult	5	7
State requirements about equally difficult	70	64
State requirements less difficult	20	23
State requirements much less difficult	5	-

Reporting requirements

While reporting requirements had not been finalized in the seven States, most grantees said that their State's reporting requirements were equally as burdensome as or less burdensome than HUD's. Forty-two percent indicated that the burden of their State's requirements was equal to that of HUD's. Thirty-four percent of the grantees said their State's requirements were less burdensome than HUD's, and 24 percent said they were more burdensome.

However, in contrast to the responses in most States, 65 percent of the grantees in both Delaware and Massachusetts indicated that their State program's reporting requirements were more burdensome than HUD's.

Variety of activities

Most respondents believed that their State's program allowed the same variety or a wider variety of eligible projects than HUD's program allowed. As the following table indicates, overall, grantees and unsuccessful applicants similarly perceived the variety of activities allowed by their States.

	<u>Grantee percent</u>	<u>Unsuccessful applicant percent</u>
State allows much wider variety	4	3
State allows wider variety	27	25
State allows about same variety	47	51
State allows narrower variety	8	12
State allows much narrower variety	6	5
No basis to judge	7	5

However, in Michigan, unsuccessful applicants (47 percent) most often characterized the variety of activities allowed by the State as narrower or much narrower than those previously allowed by HUD. Twenty-five percent said the variety was the same, and only 18 percent believed the variety of activities was wider under the State's program. Eleven percent indicated they had no basis to judge.

Flexibility in determining population groups to serve

Most grantees and unsuccessful applicants believed that their State allowed them at least as much flexibility as HUD did in determining which population groups would be served by the Small Cities Program. As shown below, 90 percent of the grantees and 84 percent of the unsuccessful applicants indicated that their State's program allowed them equal flexibility or more flexibility in making target population group determinations:

	<u>Grantee percent</u>	<u>Unsuccessful applicant percent</u>
Much more flexibility in State program	7	3
More flexibility in State program	25	21
About equal flexibility in State program	58	60
Less flexibility in State program	2	7
Much less flexibility in State program	-	2
No basis to judge	9	8

Technical assistance

Most grantees believed that the technical assistance their State provided to communities was as helpful as or more helpful than HUD's. Specifically, 47 percent said the State's assistance was more helpful, 30 percent found it equally helpful, 14 percent found it less helpful, and 9 percent indicated they had no basis on which to make this comparison.

Only one of the seven States we reviewed varied from this generally favorable perception of State-provided technical assistance. In Delaware, 53 percent of the grantees indicated that the State's provision of technical assistance was less helpful than HUD's. However, because of Delaware's relatively small number of grantees and unsuccessful applicants, 53 percent of the grantees in this case represented only five communities.

State priorities

Eighty-five percent of the grantees and 82 percent of the unsuccessful applicants said that the emphasis of their State's program priorities was as consistent as or more consistent with their own community's development needs than were the priorities emphasized by HUD's program. Specific responses are indicated below:

	<u>Grantee percent</u>	<u>Unsuccessful applicant percent</u>
State priorities are much more consistent	8	1
State priorities are more consistent	28	19
State priorities are about equally consistent	49	62
State priorities are less consistent	5	9
State priorities are much less consistent	1	3
No basis to judge	9	6

Award Process

As the following table illustrates, 83 percent of the grantees and 71 percent of the unsuccessful applicants believed their State's award process was as fair as or fairer than HUD's process.

	<u>Grantee percent</u>	<u>Unsuccessful applicant percent</u>
State method is much fairer	10	7
State method is fairer	25	8
State method is about equally fair	48	56
State method is less fair	5	15
State method is much less fair	3	8
No basis to judge	8	7

State reimbursements or drawdowns

Twenty-three percent of the grantees said that their State's reimbursements, payments, or drawdowns to meet their community's expenditures were about as prompt as HUD's had been. Twenty-two percent found their State's payments were less prompt, and 11 percent thought they were more prompt. However, almost half the grantees (44 percent) said they had no basis on which to make this judgment.

CONCLUSIONS

The majority of officials interviewed or surveyed expressed favorable opinions about their State's Small Cities Program. State and HUD officials, as well as public interest group officials, frequently noted that the program's shift from HUD to State administration brought increases in public participation and in the program's ability to respond to community needs. These views were also expressed by community officials when citing strengths of their State programs.

Communities generally viewed their State program as adequate or better in all the areas about which we inquired, including meeting local needs through the projects encouraged by their program design, providing technical assistance, and fairness of the award process. Furthermore, when those communities which had previously participated in HUD's Small Cities Program compared that program with their State's, they most often perceived the State program as being equal to or better than the HUD program in all respects except the promptness of reimbursements or drawdowns.

Table 1Comparison of 1981 HUD and 1982 State Grants, Alabama

	<u>HUD 1981</u>		<u>State 1982^a</u>
Number of grants	59		105
Average size of award	\$479,624		\$161,544
Average community size	10,703		16,459
Grants supported by other funds:			
Number	14		94
Source and amounts:			
Local	\$1,577,634		\$ 8,583,027
State	14,460		108,500
Private	50,000		7,112,671
Federal	<u>1,170,300</u>		<u>881,000</u>
Total	<u>\$2,812,394</u>		<u>\$16,685,198</u>
Percentages and dollar awards by activity: ^b			
	<u>HUD 1981</u>		<u>State 1982</u>
Housing rehabilitation	22% \$ 6,336,215	15%	\$ 2,483,686
Public facilities	46 13,061,611	74	12,515,879
Economic development	6 1,836,300	8	1,430,533
Property acquisition	5 1,461,224	2	382,000
Clearance	1 384,500	0	0
Planning	0 0	1	150,000
Public affairs	1 394,741	0	0
Other	<u>17 4,823,235^c</u>	<u>0</u>	<u>0</u>
Total funds awarded	<u>98% \$28,297,826</u>	<u>100%</u>	<u>\$16,962,098</u>

^aFor the purposes of our comparisons, we did not include \$12.8 million that was part of the State's allocation but was committed to past HUD-approved, multiyear grants because the State did not have control over this money. States had to agree to fund the multiyear grants as a condition to taking over the Small Cities Program.

^bPercentages may not total 100 because of rounding.

^cHUD's 1981 "Other" funds included \$1,667,653 for general administration, contingencies, and management and planning, as well as \$3,155,582, which we could not readily attribute to specific activities.

Table 2

Comparison of 1981 HUD and 1982 State Grants, Delaware

	<u>HUD 1981</u>		<u>State 1982</u>	
Number of grants	6		13	
Average size of award	\$239,000		\$119,674	
Average community size	5,911 ^b		3,798	
Grants supported by other funds:				
Number	1		0	
Source and amounts:				
Federal	<u>\$87,565^c</u>		0	
Total	<u>\$87,565</u>			
Percentages and dollar awards by activity: ^a				
	<u>HUD 1981</u>		<u>State 1982</u>	
Housing rehabilitation	38%	\$ 548,200	55%	\$ 855,500
Public facilities	46	652,000	22	348,090
Property acquisition	4	52,000	5	72,500
Clearance	0.3	3,800	3	41,500
Other	12	178,000	15	238,172
Total funds awarded	<u>100.3%</u>	<u>\$1,434,000</u>	<u>100%</u>	<u>\$1,555,762</u>

^aPercentages may not total 100 because of rounding.

^bRepresents average size on the basis of five communities--the population for the sixth community was unavailable because it included two unincorporated areas whose populations are not recorded with the Bureau of the Census.

^cOne community's award involved a Community Services Administration grant for \$23,565 and \$64,000 of the community's Small Cities Program award left over from HUD's fiscal year 1980 program and applied to fiscal year 1981 with HUD's permission.

Table 3Comparison of 1981 HUD and 1982 State Grants, Iowa

	<u>HUD 1981</u>		<u>State 1982^a</u>	
Number of grants	60		7 ^a	
Average size of award	\$374,965		\$196,149	
Average community size	8,996		3,249	
Grants supported by other funds:				
Number	17		66	
Source and amounts:				
Local	\$1,664,211		\$6,390,068	
Private	100,000		100,000	
Federal	<u>1,906,800</u>		<u>0</u>	
Total	<u>\$3,671,011</u>		<u>\$6,490,068</u>	
Percentages and dollar awards by activity: ^b				
	<u>HUD 1981</u>		<u>State 1982</u>	
Housing rehabilitation	40%	\$ 9,106,947	9%	\$ 1,379,107
Public facilities	40	8,990,576	84	13,050,430
Economic development	6	1,382,700	4	560,650
Property acquisition and clearance	8	1,903,839	1	203,666
Other	<u>5</u>	<u>1,113,838^c</u>	<u>2</u>	<u>301,907</u>
Total funds awarded	<u>99%</u>	<u>\$22,497,900</u>	<u>100%</u>	<u>\$15,495,760</u>

^aThese figures do not include three imminent threat grant awards totaling about \$500,000. Also, for the purpose of our comparisons, we did not include \$7.8 million that was part of the State's allocation but was committed to past HUD-approved, multiyear grants because the State did not have control over this money. States had to agree to fund the multiyear grants as a condition to taking over the Small Cities Program.

^bPercentages may not total 100 because of rounding.

^cThe \$1,113,838 "Other" funds HUD awarded in 1981 included \$1,113,438 for administrative costs and planning, as well as \$400 which we could not readily attribute to specific activities.

Table 4Comparison of 1980 HUD and 1982 State Grants, Kentucky

	<u>HUD 1980</u>		<u>State 1982^a</u>	
Number of grants	49		46	
Average size of award	\$572,070		\$335,917	
Average community size	9,859		12,878	
Grants supported by other funds:				
Number	24		45	
Source and amounts:				
Local	\$	445,333	\$	6,087,606
State		380,000		10,532,699
Private		2,906,260		108,831,031
Federal		<u>9,505,910</u>		<u>13,851,986</u>
Total		<u>\$13,237,503</u>		<u>\$139,303,322</u>
Percentages and dollar awards by activity: ^b	<u>HUD 1980</u>		<u>State 1982</u>	
Housing rehabilitation	28%	\$ 7,950,395	11%	\$ 1,667,668
Public facilities	26	7,294,315	35	5,354,481
Economic development	0	0	35	5,379,469
Property acquisition	15	4,225,165	3	521,952
Clearance	2	433,196	1	107,422
Planning	1	231,400	0.4	63,500
Other	28	<u>7,896,979</u>	15	<u>2,357,705</u>
Total funds awarded	100%	<u>\$28,031,450</u>	100.4%	<u>\$15,452,197</u>

^aFor the purposes of our comparisons, we did not include \$14.6 million that was part of the State's allocation but was committed to past HUD-approved, multiyear grants because the State did not have control over this money. States had to agree to fund the multiyear grants as a condition to taking over the Small Cities Program.

^bPercentages may not total 100 because of rounding.

Table 5

Comparison of 1981 HUD and 1982 State Grants, Massachusetts

	<u>HUD 1981</u>		<u>State 1982^a</u>	
Number of grants	42 ^c		31 ^d	
Average size of award	\$540,095		\$440,706	
Average community size	18,746		14,069	
Grants supported by other funds:				
Number	10		30	
Source and amounts:				
Local	\$	42,549	\$	1,979,032
State		6,803,150		5,721,000
Private		0		16,712,763
Federal		29,120		713,500
Other		<u>1,470,250</u>		<u>0</u>
Total		<u>\$8,345,069</u>		<u>\$25,126,295</u>
Percentages and dollar awards by activity: ^b	<u>HUD 1981</u>		<u>State 1982</u>	
Housing rehabilitation	46%	\$10,377,751	49%	\$ 6,678,965
Public rehabilitation	1	120,000	0.1	20,000
Public facilities	33	7,484,936	17	2,320,930
Economic development	6	1,370,500	22	3,052,300
Property acquisition	0.1	22,000	1	90,000
Construction	1	250,000	0	0
Contingency	1	299,500	0	0
Clearance	0.4	75,000	0	0
Planning	1	189,500	0	0
Other	11	<u>2,554,813</u>	11	<u>1,499,691</u>
Total funds awarded	100.5%	<u>\$22,684,000</u>	100.1%	<u>\$13,661,886</u>

^aFor the purposes of our comparisons, we did not include \$12.4 million that was part of the State's allocation but was committed to past HUD-approved, multiyear grants because the State did not have control over this money. States had to agree to fund the multiyear grants as a condition to taking over the Small Cities Program.

^bPercentages may not total 100 because of rounding.

^cIncludes 20 HUD-approved, multiyear grants, of which 12 were in the first year of funding; 3 were in the second year of funding; and 5 were in the third year of funding.

^dIncludes seven State-approved, multiyear grants which will also be funded in fiscal year 1983.

Table 6

Comparison of 1981 HUD and 1982 State Grants, Michigan

		<u>HUD 1981</u>		<u>State 1982^a</u>
Number of grants		47		88
Average size of award		\$459,319		\$235,475
Average community size		13,271		9,189
Grants supported by other funds:				
Number		4		77
Source and amounts:				
Local		\$520,666		\$ 12,206,474
State		100,000		6,159,684
Private		0		89,681,500
Federal		0		11,472,932
Total		<u>\$620,666</u>		<u>\$119,520,590</u>
Percentages and dollar awards by activity: ^b		<u>HUD 1981</u>		<u>State 1982</u>
Housing rehabilitation	47%	\$10,209,215	31%	\$ 6,445,575
Public facilities	34	7,302,309	26	5,369,234
Economic development	4	923,000	39	8,044,720
Property acquisition	2	448,200	0	0
Clearance	2	366,550	0.04	9,000
Planning	1	121,500	0.46	94,500
Other	10	2,217,226	4	758,757
Total funds awarded	100%	<u>\$21,588,000</u>	100.5%	<u>\$20,721,786</u>

^aFor the purposes of our comparisons, we did not include \$8.6 million that was part of the State's allocation but was committed to past HUD-approved, multiyear grants because the State did not have control over this money. States had to agree to fund the multiyear grants as a condition to taking over the Small Cities Program.

^bPercentages may not total 100 because of rounding.

Table 7Comparison of 1981 HUD and 1982 State Grants, Utah

	<u>HUD 1981</u>	<u>State 1982</u>
Number of grants	8	87
Average size of award	\$466,250	\$47,721
Average community size	19,075	21,318
Grants supported by other funds:		
Number	3	52
Source and amounts:		
Local	\$ 15,000	\$1,690,509
State	0	2,684,060
Private	933,289	185,000
Federal	<u>\$1,375,000</u>	<u>\$ 603,588</u>
Total	<u>\$2,323,289</u>	<u>\$5,163,157</u>

Percentages and dollar awards by activity: ^a	<u>HUD 1981</u>		<u>State 1982</u>	
	Housing rehabilitation	17%	\$ 615,000	2%
Public facilities	33	1,214,000	91	3,764,892
Economic development	51	1,901,000	2	89,489
Property acquisition	0	0	1	50,000
Planning	0	0	4	175,339
Total funds awarded	<u>101%</u>	<u>\$3,730,000</u>	<u>100%</u>	<u>\$4,151,720</u>

^aPercentages may not total 100 because of rounding.

ADDITIONAL DETAILS CONCERNING
OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objectives of this work were to provide the Congress a report on the States' implementation of the Small Cities Community Development Block Grant Program as authorized by the Omnibus Budget Reconciliation Act of 1981 and to provide input to the 1983 reauthorization process on the block grant legislation. This work is part of our ongoing effort to keep the Congress informed of the progress being made in implementing the block grant aspects of the 1981 Omnibus Budget Reconciliation Act.

When we conducted our fieldwork (December 1, 1982 through January 15, 1983),¹ most States were in the early stages of implementing their Small Cities Program. While essentially all States had selected their 1982 recipients, some States were just completing their grant agreements with the local communities, and only one had started its monitoring work. Accordingly, our work was directed toward reviewing the State decisionmaking process through the selection of recipients, concentrating on the following issues:

- How did States meet their public participation requirements?
- How did States decide to use and distribute Small Cities Program funds and how did that method compare with what they told HUD in their statement of objectives and projected use of funds?
- What projects and activities did the State fund in 1982 and how did they compare with the 1981 HUD-administered Small Cities Program?
- What were the successful and unsuccessful applicants' perceptions on how well a State-administered program met local needs compared with a federally administered program?

We reviewed the programs of seven States--Alabama, Delaware, Iowa, Kentucky, Massachusetts, Michigan, and Utah. These States were allocated \$150.1 million of fiscal year 1982 Small Cities Program funding. This represents approximately 15 percent of the fiscal year 1982 funds available for small cities and 20 percent of the total funds allocated to those States that elected to administer the program in 1982.

¹Fieldwork in Delaware actually began in October because the State was included in the planning phase of our work.

We selected these States on the basis of the progress they made in implementing the Small Cities Program--we excluded those States that had not essentially completed their selection of grantees by December 1, 1982. We initially based our selection on the 13 States included in our prior review. (See footnote 1 on p. 1.) However, 6 of those 13 States--California, Colorado, Florida, New York, Texas, and Vermont--chose not to administer the program in fiscal year 1982. Three others--Mississippi, Pennsylvania, and Washington--although electing to administer the program, had not completed their selection process by December 1. Therefore, to obtain additional audit coverage and geographic balance, three States were added--Alabama, Delaware, and Utah. We recognize that our selection of States will not allow us to address the total universe of States administering the Small Cities Program in 1982.

At each State, we met with officials responsible for developing, designing, and implementing the Small Cities Program to obtain information and their views on (1) the States' decision-making process and (2) the States' administration of their programs as opposed to HUD's administration of its program. We reviewed documents concerning the States' program designs, public participation efforts, and all successful applications to obtain detailed data on how local communities were planning to use the Small Cities Program funds. We also took statistical samples of both the successful and unsuccessful applicant universes in each State in order to determine if the States distributed funds and selected grantees in accordance with the procedures outlined in its statement of objectives and in accordance with the criteria it set up for that purpose. We reviewed the applications, supporting documentation, and steps the States took to select the grantees over the unsuccessful applicants.

We also sent two questionnaires to the sample groups--209 of 449 grantees and 245 of 1,150 unsuccessful applicants--to obtain perceptions from the local communities on the State-administered programs. The sampling errors for the data in this report are no greater than plus or minus 6 percent for the total grantee sample and 7 percent for the total unsuccessful applicant sample, at the 95-percent confidence level. This means the chances are 19 out of 20 that if we had reviewed all of the grantees and unsuccessful applicants in all seven States, the results of the review would not have differed from the estimates obtained from our sample by more than the sampling errors reported. The results presented in this report represent responses weighted to reflect the responses of the populations sampled. The range of response rates in the seven States for the successful applicants was from 76 to 100 percent. The range of response rates for the unsuccessful applicants was from 62 to 100 percent. The aggregate response rates for the successful and unsuccessful applicants were 90 and 84 percent, respectively.

The successful applicant questionnaire was designed to obtain information on the local community's input into the State decisionmaking process in designing its program; the way in which the community planned for, applied for, and is using the funding it received; and the community government's views on the way in which the State conducted the program compared with the past HUD-administered program. We asked that the views expressed be those of the highest level government official familiar with the community's experience under the program.

The unsuccessful applicant questionnaire was also designed to obtain information on the local community's input into the State's decisionmaking process in designing its program, the way in which the community applied for funds, and the community government's views on the way the State conducted the program compared with the past HUD-administered program. We also asked unsuccessful applicants questions concerning the State's decision not to fund their projects. As in the successful applicant questionnaire, we asked that the views expressed be those of the highest level government official familiar with the community's experience under the program.

In each State, we also met with selected public interest groups and associations to determine their participation in the design of the State program and to obtain their views on the program and its administration.

In addition to visiting the seven States, we conducted our review at HUD headquarters and at the HUD regional and area offices that were responsible for administering the 1981 Small Cities Program in the seven States.

At HUD headquarters, we reviewed the Community Development Block Grant Program's legislative history; HUD regulations, handbooks, and notices; and other HUD documents and analyses. We also interviewed office directors and other staff members involved with the Small Cities Program under HUD's Assistant Secretary for Community Planning and Development.

At HUD field offices, we interviewed community planning and development officials and reviewed appropriate documents to gather information on HUD's role in assisting States in designing their Small Cities Program and to obtain views on the advantages and disadvantages of States administering the Small Cities Program versus HUD. We also gathered detailed information from all of the successful applications HUD funded in 1981 in each of the States we visited except Kentucky. In Kentucky, we used 1980 data because it was the last year that HUD administered the program. These data were summarized along with the 1982 successful applicant data and used to show how the funds were used under the State's decisionmaking process versus HUD's decisionmaking process.

We followed standard interview guides (standardized questions) in each State to ensure uniform coverage of issues discussed with State, HUD, and public interest group officials.



U S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON D C 20410

September 2, 1983

Mr J Dexter Peach
Director, Resources, Community,
and Economic Development Division
United States General Accounting Office
441 G Street, N W.
Washington, D C 20548

Dear Mr Peach

Thank you for the opportunity to comment on GAO's draft report entitled "States are Making Good Progress in Implementing the Small Cities Community Development Block Grant Program " We are pleased with the Report and believe it accurately reflects the experience of the States during this first year of the program However, I would like to offer the following comments

The report contains several comments relating to the Act's primary objective of carrying out community development activities which principally benefit low- and moderate-income persons with which we do not agree We believe there should be recognition of the Department's position that the primary objective can be achieved through the undertaking of eligible activities which carry out one of more of the three broad national objectives set out in Section 104(b)(3) of the Act These objectives are benefitting low- and moderate income persons or aiding in the prevention or elimination of slums or blight. The primary objective may also be addressed through activities which meet other community development needs having a particular urgency because existing conditions pose a serious threat to the health or welfare of the community where other financial resources are not available to meet such needs This position is based on the Senate Report, No 97-87 at page 3

For a fuller treatment of our position on this issue, I refer you to the Preamble to the State Block Grant regulations published April 8, 1982 (24 CFR Part 570, Subpart I), under the heading "Primary Objective "

I would like also to point out that even with the Department's approach, the State Block Grant Program continues to provide substantial emphasis to the objective of benefitting low- and moderate-income persons

As the GAO reports states, although six of the seven States studied by GAO are experiencing decreases in overall benefit to low- and moderate-income persons (at least to the extent gauged by planned activities), in each case the results are well within the rule administratively adopted in 1978 concerning program benefit, prior to the 1978 amendments precluding a program-as-a-whole rule for annual grants In six out of the seven States, over 70 percent of the grants are being used to benefit low- and moderate-income persons

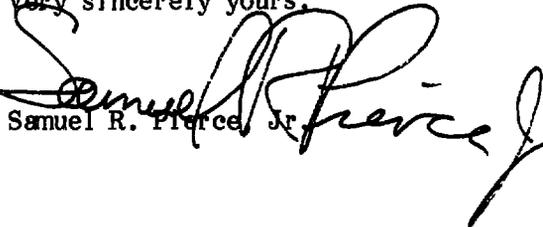
First of all, the report recognizes that such decreases may result from a shift in allocating funds from housing rehabilitation to public facilities or economic development. Economic development as an eligible activity per se was added to the legislation in 1981, this important expansion of eligibility was bound to have some change in choice of activity. Second, because selection criteria under the HUD-run small cities program were strongly geared to benefit to low- and moderate-income persons, housing rehabilitation was the first choice of activities proposed by applicants who knew that to select other activities decreased their prospects for funding. The new State Program furnishes States the ability to fund deserving projects chosen by localities without such limitations. Third, and perhaps no less telling, HUD itself has revised its selection criteria for the small cities program in those States where the program is administered by HUD so as not to place such emphasis on benefit to low- and moderate-income persons.

I believe recognition of HUD's approach to the primary objectives is critical because several of GAO's suggestions and comments rely on your interpretation rather than ours. Specifically, on page 29 of the draft report, you conclude that certain information will be required for the Department to "determine that the block grant program's primary objective of carrying out community development activities which principally benefit low- and moderate-income persons is being met and for HUD to evaluate and report to Congress on the overall effectiveness of the program." Since we believe alternative approaches are possible to address the primary objective, data on low- and moderate-income persons do not assume the criticalness you ascribe to it. We do expect States to demonstrate how their funded activities address one, but not all of the three national objections they fall under. For example, we do not expect States to demonstrate how slum and blight activities benefit low- and moderate-income persons.

Similarly, on page 22 the report notes that the regulations are not clear as to whether "States have to specifically demonstrate in their performance report that their overall program meets the primary objective . . ." Given our approach, States will not be required to provide such information in their annual reports.

These concerns were expressed at the briefing conducted by GAO for Assistant Secretary Stephen Bollinger on August 17, 1982. We feel inclusion of our interpretation will place the Department's position on these issues in the proper context.

Very sincerely yours,


Samuel R. Pierce, Jr.

GAO Note: Page references have been changed to correspond with page numbers in the final report.

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