

Why GAO Did This Study

Administered by HUD, the CDBG program provides funding for housing, community, and economic development programs. After set asides, HUD must allocate 70 percent of funds to cities and urban counties, known as entitlement communities, and 30 percent to states for distribution to eligible nonentitlement communities. In fiscal year 2015, Congress appropriated \$3 billion for the CDBG program, of which HUD allocated \$900 million to states. Seventy percent of CDBG funds must principally benefit low- and moderate-income persons, and Census Bureau data are used for this determination. In 2014, HUD transitioned from using decennial census long form income data (which are no longer collected) to ACS income data, which HUD uses to update its income data every 5 years.

GAO was asked to review HUD's policies related to communities that disagree with their CDBG eligibility determination based on HUD's use of ACS data. This report examines (1) HUD's and states' eligibility policies and (2) potential alternative data sources. GAO interviewed CDBG administrators from 8 states and from nonentitlement communities in each of these states, all of which were selected based on available data and CDBG stakeholders' recommendations; spoke with other CDBG stakeholders; and reviewed CDBG guidance from 49 states and Puerto Rico. GAO also analyzed how use of ACS data can affect community eligibility.

GAO makes no recommendations in this report. HUD and the Department of Commerce provided technical comments.

View [GAO-16-734](#). For more information, contact William Shear at (202) 512-8678 or shearw@gao.gov.

COMMUNITY DEVELOPMENT BLOCK GRANTS

Sources of Data on Community Income Are Limited

What GAO Found

The Department of Housing and Urban Development's (HUD) and states' primary method for communities to demonstrate eligibility when they disagree with HUD's eligibility determination is to allow communities to conduct their own local income surveys to show that they meet the Community Development Block Grant (CDBG) income threshold. HUD instructs small communities, known as nonentitlement communities, to use data based on the Census Bureau's American Community Survey (ACS) to determine whether at least 51 percent of residents in their proposed project service areas are low- and moderate-income persons and are therefore eligible for CDBG funds. However, communities may disagree with their eligibility determination based on ACS data, or they may be unable to use this method because the project's service area is larger or smaller than the census boundaries. In these cases, HUD and states allow communities to conduct their own local income surveys to demonstrate eligibility. State officials GAO interviewed said it is common for nonentitlement communities to use local income surveys as an alternative to HUD's ACS-based data, and HUD and states provide guidance on conducting these surveys. However, stakeholders cited costs and other challenges nonentitlement communities face in conducting local income surveys, including resource constraints, administrative burdens, and difficulty in obtaining a sufficient number of survey responses. Other than local income surveys, alternative methods for showing eligibility for CDBG funds are limited. For example, communities may qualify by funding activities that serve populations HUD presumes to be low- and moderate income, such as the elderly or homeless.

Stakeholders GAO interviewed cited challenges associated with measuring income and limitations associated with alternative data sources that might be used to demonstrate that communities meet the low- and moderate-income requirements. For example, stakeholders cited general challenges associated with measuring income and poverty, such as fluctuations in an individual's or community's income over a year. Some stakeholders cited alternative sources of income information that have not been used by communities that disagree with census data to determine CDBG eligibility. However, they noted that these sources would likely have one or more of the following limitations:

- does not fully measure a community's income;
- is not easily accessible by communities;
- is not available at small geographic levels; or
- is not more precise than ACS.

For example, some sources of income data, such as income tax data, may have limited public availability—limiting their accessibility by communities—and income tax data would not include low-income earners who are not required to file tax returns. Other sources, such as the Supplemental Nutrition Assistance Program and other income-based programs, would not provide data at a small enough geographic level to be useful for this purpose. The Census Bureau is in the process of exploring ways to use external data sources, such as Social Security Administration and Internal Revenue Service data, to supplement ACS to improve the data and expects to make recommendations by March 2017.