

# CRS Report for Congress

## The HUD Homeless Assistance Grants: Distribution of Funds

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# The HUD Homeless Assistance Grants: Distribution of Funds

## Summary

The U.S. Department of Housing and Urban Development (HUD) distributes four homeless assistance grants, each of which provides funds to local communities so that they can finance a range of housing and supportive services options for the homeless. These four grants — the Emergency Shelter Grants (ESG) program, the Supportive Housing Program (SHP), the Shelter Plus Care (S+C) program, and the Section 8 Moderate Rehabilitation for Single Room Occupancy Dwellings (SRO) program — are authorized in the McKinney-Vento Homeless Assistance Act (P.L. 100-77, as amended). Congress appropriates one lump sum for all four grants, and HUD then determines how the funds are allocated among the four programs.

HUD distributes the four homeless assistance grants annually to eligible applicants, which include states, metropolitan areas, counties, nonprofit organizations, and public housing authorities. Funds for the ESG program are used primarily for the short-term needs of the homeless, such as emergency shelter, while the SHP, S+C, and SRO programs address longer-term transitional and permanent housing needs. HUD uses one method to distribute funds for the ESG program and another method to distribute funds for the SHP, S+C, and SRO programs.

The ESG program distributes funds to states, counties, and metropolitan areas using the Community Development Block Grant (CDBG) program formula. States and communities receive the same proportion of ESG funds that they received in CDBG funds the previous fiscal year. However, if a community is projected to receive less than .05% of the total amount of ESG funds, its share goes to the state. After they receive funds, states and communities then distribute them to homeless service providers, including nonprofit organizations and local government entities.

The SHP, S+C, and SRO grants are distributed through a competitive process called the Continuum of Care (CoC) application system (these three grants are sometimes referred to as the “competitive grants”). Through the CoC process, representatives from local community organizations work collaboratively to develop a plan for addressing homelessness in their area. They then determine which homeless services providers in the community should receive funding from the three competitive grants and submit a unified application to HUD. HUD then uses a multi-step process to determine which homeless services providers should receive funding. This involves both a formula aspect, through which HUD determines community need using the CDBG formula, and a competitive aspect, through which HUD assigns points for various elements included in the CoC application. Proposed projects that receive a certain threshold number of points are funded.

Recently, both Congress and the Administration have discussed policy changes that could affect how the homeless assistance grants are distributed. These include HUD-proposed changes to the CDBG formula and two bills in the 109<sup>th</sup> Congress (S. 1801 and H.R. 5041) that would have consolidated the three competitive homeless assistance grants and refined the CoC application system.

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# The HUD Homeless Assistance Grants: Distribution of Funds

## Introduction

Homelessness in America has always existed, but it did not come to the public's attention as a national issue until the 1970s and 1980s, when the characteristics of the homeless population and their living arrangements began to change. Throughout the early and middle part of the 20th century, homelessness was typified by "skid rows" — areas with hotels and single-room occupancy dwellings where transient single men lived.<sup>1</sup> Skid rows were usually removed from the more populated areas of cities, and it was uncommon for individuals to actually live on the streets.<sup>2</sup> Beginning in the 1970s, however, the homeless population began to grow and become more visible to the general public. According to studies from the time, the homeless were no longer almost exclusively single men, but included women with children; their median age was younger; they were more racially diverse (in previous decades the observed homeless population was largely white); they were less likely to be employed (and therefore had lower incomes); they were mentally ill in higher proportions than previously; and individuals who were abusing or had abused drugs began to become more prevalent in the population.<sup>3</sup>

A number of reasons have been offered for the growth in the number of the homeless and their increasing visibility. Many cities demolished skid rows to make way for urban development, leaving some residents without affordable housing options.<sup>4</sup> Other possible factors contributing to homelessness include the decreased availability of affordable housing generally, the reduced need for seasonal unskilled labor, the reduced likelihood that relatives will accommodate homeless family members, the decreased value of public benefits, and changed admissions standards at mental hospitals.<sup>5</sup> The increased visibility of the homeless was due, in part, to the decriminalization of actions such as public drunkenness, loitering, and vagrancy.<sup>6</sup>

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<sup>1</sup> Peter H. Rossi, *Down and Out in America: The Origins of Homelessness* (Chicago: The University of Chicago Press, 1989), pp. 20-21, 27-28.

<sup>2</sup> *Ibid.*, p. 34.

<sup>3</sup> *Ibid.*, pp. 39-44.

<sup>4</sup> *Ibid.*, p. 33.

<sup>5</sup> *Ibid.*, pp. 181-194, 41. See, also, Martha Burt, *Over the Edge: The Growth of Homelessness in the 1980s* (New York: Russell Sage Foundation, 1992), pp. 31-126.

<sup>6</sup> *Down and Out in America*, p. 34; *Over the Edge*, p. 123.

In the 1980s, Congress first responded to the growing prevalence of the homeless with several separate grant programs designed to address the food and shelter needs of the homeless.<sup>7</sup> Then, in 1987, Congress enacted the Stewart B. McKinney Homeless Assistance Act (McKinney Act), which created a number of new programs to comprehensively address the needs of the homeless, including food, shelter, health care, and education (P.L. 100-77). The act was later renamed the McKinney-Vento Homeless Assistance Act (P.L. 106-400).<sup>8</sup> Among the programs authorized in the McKinney Act were four grants to provide housing and related assistance to the homeless: the Emergency Shelter Grants (ESG) program, the Supportive Housing Demonstration program, the Supplemental Assistance for Facilities to Assist the Homeless (SAFAH) program, and the Section 8 Moderate Rehabilitation Assistance for Single Room Occupancy Dwellings (SRO) program. These four programs, administered by the U.S. Department of Housing and Urban Development (HUD), were created to provide temporary and permanent housing to the homeless, along with supportive services. Over the years, Congress has changed the makeup of the homeless assistance grants, but there are still four programs, three of which were part of the original McKinney Act. The four existing grants are the ESG program, the Supportive Housing Program (SHP), the Shelter Plus Care (S+C) program, and the SRO program. This report describes how HUD distributes the four homeless assistance grants.

## The Role of Congress and HUD in the Funding Process

Since creating the four homeless assistance grants in 1987, Congress has played a decreasing role in how funds are allocated among them. Initially, from FY1987 to FY1994, Congress appropriated funds separately for each of the four programs. However, beginning in FY1995 and continuing to the present, Congress has appropriated one lump sum for all four programs, and HUD has then determined how those funds are distributed among the ESG, SHP, S+C, and SRO programs. (For a distribution of the grants from FY1987 through FY2006, see **Table 1**.)<sup>9</sup>

After Congress makes its annual appropriation for the homeless assistance grants (this amount was \$1.34 billion in FY2006 — P.L. 109-115), HUD first

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<sup>7</sup> These programs included the Emergency Food and Shelter Program (P.L. 98-8), the Emergency Shelter Grants Program (P.L. 99-591), and the Transitional Housing Demonstration Program (P.L. 99-591). All three were incorporated into the McKinney Act. (The Transitional Housing Demonstration Program was renamed the Supportive Housing Demonstration Program.)

<sup>8</sup> For information about other programs for the homeless created by the McKinney Act, see CRS Report RL30442, *Homelessness: Targeted Federal Programs and Recent Legislation*, coordinated by Libby Perl.

<sup>9</sup> In addition to funds for the four grant programs, the congressional appropriation has also at times contained funds for items like training and technical assistance, data collection, and the Interagency Council on Homelessness. These amounts make up a small percentage of the total appropriation.

allocates a portion of the total appropriation to the ESG program. This amount is generally between 13% and 15% of the total appropriation. HUD bases this range of funding on the proportion of funds Congress devoted to the program in its FY1994 appropriation. After HUD has set aside the ESG funds from the appropriation, it sets aside funds to renew S+C permanent housing contracts in a separate account.<sup>10</sup> In every HUD appropriations act since FY2001, Congress has required HUD to provide funds to renew existing S+C contracts on an annual basis, as long as HUD determines that the S+C projects are needed and meet program requirements. The amount remaining after the ESG funds and S+C renewal funds are deducted from the total appropriation is then available for the SHP and SRO programs, and for new S+C projects. These remaining funds are not specifically dedicated to any of the three programs.

After determining which funds are available for the ESG program, S+C renewals, and the SHP, S+C, and SRO programs, HUD uses two methods to distribute the funds to grantees — one for the ESG program and another for the three remaining programs. HUD awards the funds allocated to the ESG program through a formula allocation, and the SHP, S+C, and SRO program funds through a competitive application system. For this reason, the SHP, S+C, and SRO programs are sometimes called the competitive homeless assistance grants.

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<sup>10</sup> See HUD Homeless Assistance Appropriations and Allocations, available on the HUD website [<http://www.hud.gov/offices/cpd/homeless/budget/index.cfm#approps>].

**Table 1. Funding for Homeless Assistance Grants,  
FY1987-FY2006**

(\$ in thousands)

Fiscal year	Emergency Shelter Grants (ESG)	Single Room Occupancy (SRO)	Shelter Plus Care <sup>a</sup> (S+C)	Supportive Housing Program <sup>b</sup> (SHP)	Total funds for HUD homeless programs (see note)
1987	\$60,000	\$35,000	—	\$59,000	\$195,000 <sup>c</sup>
1988	8,000	—	—	65,000	72,000
1989	46,500	45,000	—	80,000	171,500
1990	73,164	73,185	—	126,825	284,004 <sup>d</sup>
1991	73,164	104,999	—	149,988	339,414 <sup>e</sup>
1992	73,164	105,000	110,533	150,000	449,960 <sup>f</sup>
1993	49,496	105,000	266,550	150,443	571,489
1994	113,840	150,000	123,747	334,000 <sup>g</sup>	822,747 <sup>h</sup>
1995	155,218	136,000	164,000	630,000	1,120,000 <sup>i</sup>
1996	113,841	48,000	89,000	606,000	823,000
1997	113,727	24,000	61,000	663,000	823,000
1998	164,993	10,000	117,000	596,000	823,000
1999	150,000	17,000	151,000	556,000	975,000
2000	150,000	20,000	95,000	784,000	1,020,000
2001	149,670	14,000	174,000	760,000	1,122,525
2002	150,000	10,400	178,700	788,200	1,122,525
2003	149,025	11,200	237,000	865,400	1,217,037
2004	159,056	12,900	322,800	906,900	1,259,525
2005	158,720	14,000	304,400	860,900	1,229,214
2006	158,400	— <sup>j</sup>	— <sup>j</sup>	— <sup>j</sup>	1,326,600

**Sources:** HUD Congressional Budget Justifications FY1988-FY2007 (all grants through FY1994 and competitive grants from FY2002 to FY2005), HUD Community Planning and Development grantee list FY1993-FY2006 (ESG from FY1993 through FY2006), and HUD's Office of Special Needs (competitive grants for FY1987 and from FY1995 through FY2001).

**Note:** Until FY1995, Congress separately appropriated funds for each of the four homeless assistance grants. Since then, however, Congress has appropriated one amount for all four grants and HUD has divided the funds. Therefore, amounts through FY1994 represent appropriations, and those from FY1995 forward represent funds distributed to grantees. The amounts for each of the four separate grant programs may add up to more or less than the amount in the column "Total for HUD Homeless Programs" in a given fiscal year due to the use of carryover funds. And in some years, the sum of the four separate grants may add up to less than the total due to allocations to other funds like technical assistance, data collection, or the Interagency Council on the Homeless.

- a. The S+C program was authorized in 1990 by P.L. 101-645 and first received funding in FY1992.
- b. From FY1987 to FY1993, SHP was a demonstration program. In FY1987 it was called the Transitional Housing Demonstration Program (P.L. 99-591). SHP as it currently exists was authorized in P.L. 102-550.
- c. The total includes \$15 million for the Supplemental Assistance for Facilities to Assist the Homeless (SAFAH) program. In 1992, P.L. 102-550 incorporated elements of SAFAH and the Supportive Housing Demonstration Program into the new Supportive Housing Program.
- d. The total includes \$10,830,000 for the SAFAH program.
- e. The total includes \$11,263,000 for the SAFAH program.
- f. The total includes \$11,263,000 for the SAFAH program.
- g. In P.L. 103-124, Congress provided that of the amount appropriated for SHP, an amount not to exceed \$50 million could be used for the Safe Havens Demonstration Initiative and \$20 million for the Rural Housing Demonstration Program.
- h. The total includes \$100 million for the Innovative Homeless Initiatives Demonstration Program.
- i. The total includes \$25 million for the Innovative Homeless Initiatives Demonstration Program.
- j. HUD has not distributed the competitive grants for FY2006.

## The Emergency Shelter Grants Program

The ESG program, the oldest of the four existing homeless assistance grants, was established one year prior to enactment of the McKinney Act as part of the Continuing Appropriations Act for FY1987 (P.L. 99-591).<sup>11</sup> The funds distributed through the ESG program provide for the emergency shelter and service needs of the homeless. The program uses the Community Development Block Grant (CDBG) program dual formula to distribute funds to both local communities (called “entitlement areas” and defined as metropolitan cities and urban counties<sup>12</sup>) and states (called “non-entitlement areas”) for distribution in communities that do not receive funds directly. The CDBG program formula is meant to distribute funds based on a community’s need for development; the ESG program has used the CDBG formula to target funds for homeless assistance since its inception.

After the CDBG formula determines the amount of ESG funds each state and community receives, they, in turn, allocate the funds to local government entities and nonprofit organizations that provide services for the homeless. These recipient organizations may use funds for four main purposes: the renovation, major rehabilitation or conversion of buildings into emergency shelters; services such as employment counseling, health care, and education; homeless prevention activities such as assistance with rent or utility payments; and operational and administrative expenses.<sup>13</sup> States and communities must ensure that not more than 30% of the total ESG funds they receive is used for services, not more than 30% is used for homeless prevention activities, not more than 10% is used for staff costs, and not more than 5% is used for administrative costs.<sup>14</sup>

### Distribution of ESG Funds

As a condition for receiving ESG funds, states and communities must present HUD with a consolidated plan explaining how they will address community development needs within their jurisdictions. The consolidated plan is required in order for communities to participate in four different HUD grant programs, including ESG.<sup>15</sup> The plan is a community’s description of how it hopes to integrate decent housing, community, and economic needs of low- and moderate-income residents

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<sup>11</sup> The ESG program was initially part of H.R. 5313, which was incorporated into H.Rept. 99-1005, the Conference Report to accompany H.J.Res. 738, which became P.L. 99-591.

<sup>12</sup> See 42 U.S.C. 11373(a), which refers to the statute governing the Community Development Block Grant at 42 U.S.C. §§5302(a)(4)-(6). A metropolitan city is the central city within a metropolitan statistical area, or a city of 50,000 or more within a metropolitan statistical area, and an urban county is a county within a metropolitan area that has a population of 200,000 or more, or 100,000 or more if the county contains no incorporated areas.

<sup>13</sup> 42 U.S.C. §11374(a).

<sup>14</sup> *Ibid.*

<sup>15</sup> The other programs are the Community Development Block Grant program, the HOME program, and the Housing Opportunities for Persons with AIDS (HOPWA) program.

over a three- to five-year time span.<sup>16</sup> Consolidated plans are intended to be collaborative efforts of local government officials, representatives of for-profit and non-profit organizations, and community members. HUD may disapprove a community's consolidated plan with respect to one or more programs, although communities have 45 days to change their plans to satisfy HUD's requirements.<sup>17</sup> If HUD disapproves the ESG portion of the plan, the applicant community will not receive ESG funds.

If HUD approves a community's consolidated plan, the community will receive ESG funds based on its share of CDBG funds from the previous fiscal year. However, the community must have received at least 0.05% of the total CDBG allocation to the states in order to qualify to receive ESG funds.<sup>18</sup> In cases where a community would receive less than .05% of the total ESG allocation, its share of funds goes to the state to be used in areas that do not receive their own ESG funds.<sup>19</sup> For example, if a community received 0.08% of the total CDBG allocation to the states in FY2000, it would receive that same percentage of ESG funds in FY2001. In FY2006, 364 states, cities, counties, and territories received ESG funds.<sup>20</sup> For an overview of how funds are distributed, see **Figure 1**.

After the recipient states and entitlement communities receive their ESG funds, they distribute them to local government entities or nonprofit organizations that provide services to the homeless. These recipient organizations have been previously determined by the state or local government through an application process in which organizations submit proposals — HUD is not involved in this process. Each recipient organization must match the federal ESG funds dollar for dollar.<sup>21</sup> The match may be met through the value of donated buildings, the lease value of buildings, salary paid to staff, and volunteer time counted at \$5 an hour.<sup>22</sup>

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<sup>16</sup> 24 C.F.R. §91.1(a).

<sup>17</sup> 24 C.F.R. §91.500.

<sup>18</sup> 42 U.S.C. §§11373.

<sup>19</sup> 42 U.S.C. §11373(b).

<sup>20</sup> HUD Office of Community Development, available at [<http://www.hud.gov/offices/cpd/about/budget/budget06/>].

<sup>21</sup> 42 U.S.C. §11375(a).

<sup>22</sup> *Ibid.*

## **The Three Competitive Homeless Assistance Grants and the Continuum of Care**

The bulk of the funding for the homeless assistance grants is awarded to the three competitive grant programs: the SHP, S+C, and SRO programs. In FY2005 (the most recent year in which the grants were distributed), more than 88% of the total amount of funds distributed to the four grant programs went to the competitive grants. The composition of the competitive grants has remained relatively stable since the passage of the McKinney Act in 1987. The three existing programs have together comprised the competitive grants since FY1992. Both the SHP and the SRO program were part of the original McKinney Act in 1987, and the S+C program was added in 1990 (P.L. 101-645). Congress later made two other programs, the Safe Havens for Homeless Individuals Demonstration Program (P.L. 102-550) and the Rural Homeless Housing Assistance Program (P.L. 102-55), part of the McKinney Act, and gave HUD authority to allocate funds to them from the SHP appropriation. However, HUD never allocated funds.

### **An Overview of the Three Competitive Grants**

The three competitive homeless assistance grants each perform somewhat different functions, but all three have a unified focus in that they concentrate on the longer-term needs of the homeless rather than their emergency requirements. These longer-term needs include transitional housing (up to 24 months), permanent housing, and supportive services. The supportive services are designed to help homeless individuals with a variety of issues that might prevent them from being able to find and maintain permanent housing (for example, employment counseling, health care, and child care). Differences among the programs occur in the eligible uses of funds, the way in which housing to the homeless is provided, match requirements by grant recipients, and the eligible populations served. (For a breakdown of some of these distinctions, see **Table 2**.)

**The Supportive Housing Program.** The SHP provides funds for transitional housing for homeless individuals and families for up to 24 months, permanent housing for disabled homeless individuals, and supportive services.<sup>23</sup> In FY2005, just under 73% of total HUD competitive grant funds went to recipients as SHP grants.<sup>24</sup> Eligible applicants for SHP grants include states, local government entities, public housing authorities (PHAs), private nonprofit organizations, and community mental health centers.<sup>25</sup> Grant recipients can provide housing together with services, or can choose to provide services only (without a housing program component). Specifically, funds may be used to acquire and/or rehabilitate buildings that will be used either to provide supportive housing or buildings that will be used

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<sup>23</sup> At least 10% of total SHP funds must be used for supportive services, at least 25% must be used for projects that serve families with children, and at least 25% must be used for projects that serve homeless persons with disabilities. 42 U.S.C. §11389(b).

<sup>24</sup> HUD FY2007 Congressional Budget Justifications, p. D-2, available at [<http://www.hud.gov/offices/cfo/reports/2007/cjs/part2/cpd/hagrants.pdf>].

<sup>25</sup> 42 U.S.C. §11382(1).

to provide supportive services only. Funds may also be used to *construct* buildings that will be used for supportive housing (but not supportive services only).<sup>26</sup>

In addition to financing physical structures, grantees may use funds to provide services like case management, health care, child care, housing assistance, nutritional counseling, and employment assistance. Grant recipients may provide these services themselves, or through contracts with outside providers. In addition, grant recipients may use funds to pay for up to 75% of their annual operating expenses and to help implement a Homeless Management Information System (HMIS)<sup>27</sup> to keep track of the homeless individuals served within their community.

Recipients of SHP grants are required to meet match requirements. All of the matching funds must be provided by cash sources,<sup>28</sup> but the level of non-federal funds required varies with the type of activity undertaken. Funds that are to be used for acquisition, rehabilitation, or new construction must be matched with an equal amount of the grant recipient's own funds.<sup>29</sup> Those SHP grantees that receive funds for supportive services must provide at least a 20% match with funds from other sources, while grantees that receive funds for operating expenses must provide at least a 25% match of these funds on their own.<sup>30</sup>

**The Shelter Plus Care Program.** The S+C program provides permanent supportive housing through rent subsidies for disabled homeless individuals and their families. In FY2005, approximately 26% of total competitive grant funds went to S+C grantees.<sup>31</sup> The S+C rent subsidies may be tenant-based vouchers, project-based rental assistance, or sponsor-based rental assistance.<sup>32</sup> Eligible applicants for the S+C grants are states, local government entities, and PHAs.<sup>33</sup> The S+C program requires grant recipients to match the amount of grant funds they receive for rental assistance with an equal amount of funds that they will use to provide supportive services.<sup>34</sup> The services under S+C are similar to those provided in the SHP, and include activities like physical and mental health care, substance abuse counseling,

<sup>26</sup> 42 U.S.C. §11383.

<sup>27</sup> HMIS is a data collection, organization, and storage initiative to track and count the homeless. For more information see CRS Report RS22328, *The Homeless Management Information System*, by Libby Perl.

<sup>28</sup> 24 C.F.R. §583.145.

<sup>29</sup> 42 U.S.C. §11386(e).

<sup>30</sup> Department of Housing and Urban Development, "Notice of Funding Availability, Continuum of Care Homeless Assistance," *Federal Register*, vol. 71, no. 45, March 8, 2006, p. 12059 [hereinafter FY2006 NOFA].

<sup>31</sup> HUD FY2007 Congressional Budget Justifications, p. D-2.

<sup>32</sup> 42 U.S.C. §11404-11406b. In sponsor-based housing, recipient states, local governments, or PHAs contract with private nonprofit organizations or community mental health agencies to operate the housing. 24 C.F.R. §582.100(c).

<sup>33</sup> 42 U.S.C. §11403g(2).

<sup>34</sup> 42 U.S.C. § 11403b(a).

child care services, case management, and educational and job training.<sup>35</sup> Grant recipients can fulfill the match requirement with cash, the value of a lease, salary expenses for employees, or the time of volunteers.

**The Single Room Occupancy Program.** The SRO program provides permanent housing to homeless individuals in efficiency units similar to dormitories, with single bedrooms, community bathrooms, and kitchen facilities. In FY2005, 1.26% of total competitive funds awarded went to SROs. The SRO program does not require homeless residents to be disabled and does not fund supportive services. Eligible applicants for SRO grants are PHAs and private nonprofit organizations.<sup>36</sup> SRO units are funded as part of HUD's Section 8 Moderate Rehabilitation program, which requires grant recipients to spend at least \$3,000 per unit to rehabilitate property to be used for SRO housing in order to bring the property into compliance with HUD's housing quality standards.<sup>37</sup> Grant recipients are reimbursed for the costs of rehabilitating SRO units through Section 8 rental assistance payments that they receive over a ten-year contract period. The costs of rehabilitation are amortized and added to a base rental amount. The maximum amount that a building owner can spend per unit and still be reimbursed is \$20,500 as of FY2006 (this amount is updated annually).<sup>38</sup> After the ten-year rental contracts expire, they are not renewed through the homeless assistance grant competition, but through a separate HUD account on an annual basis.<sup>39</sup>

#### **Resident Contributions To Housing Costs**

In the SHP, S+C, and SRO programs, residents are asked to pay a portion of their income toward rent, if they are able. In all three programs, rent may not exceed the greater of 30% of adjusted income, 10% of gross income, or if a family receives welfare benefits, the portion of the benefit designated for housing costs.

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<sup>35</sup> 24 C.F.R. §582.5.

<sup>36</sup> 42 U.S.C. §11401(j).

<sup>37</sup> 24 C.F.R. §882.802.

<sup>38</sup> HUD publishes the maximum amount of expenditures annually, taking account of changes in construction costs. See FY2006 NOFA, p. 12061.

<sup>39</sup> FY2006 NOFA, p. 12062.

**Table 2. Characteristics of the SHP, S+C, and SRO Programs**

<b>Program Characteristics</b>	<b>Supportive Housing Program (SHP)</b>	<b>Shelter Plus Care (S+C)</b>	<b>Single Room Occupancy (SRO)</b>
<i>Eligible Uses of Funds</i>	<ul style="list-style-type: none"> <li>- Transitional Housing</li> <li>- Permanent Housing</li> <li>- Supportive Services</li> <li>- Operating Expenses</li> </ul>	<ul style="list-style-type: none"> <li>- Permanent Housing</li> </ul>	<ul style="list-style-type: none"> <li>- Permanent Housing</li> </ul>
<i>Eligible Applicants</i>	<ul style="list-style-type: none"> <li>- States</li> <li>- Local Government Entities</li> <li>- PHAs</li> <li>- Private Nonprofits</li> <li>- Community Mental Health Centers</li> </ul>	<ul style="list-style-type: none"> <li>- States</li> <li>- Local Government Entities</li> <li>- PHAs</li> </ul>	<ul style="list-style-type: none"> <li>- PHAs</li> <li>- Private Nonprofits</li> </ul>
<i>Eligible Populations</i>	<ul style="list-style-type: none"> <li>- Families and Individuals (Transitional Housing and services only)</li> <li>- Disabled Individuals</li> </ul>	<ul style="list-style-type: none"> <li>- Disabled individuals and their families</li> </ul>	<ul style="list-style-type: none"> <li>- Individuals</li> </ul>
<i>Match Requirements</i>	<ul style="list-style-type: none"> <li>- Dollar for Dollar (Acquisition, Rehabilitation, or Construction)</li> <li>- 20% (Services)</li> <li>- 25% (Operating Expenses)</li> </ul>	<ul style="list-style-type: none"> <li>- Equal amount of funds for services</li> </ul>	<ul style="list-style-type: none"> <li>- No match requirement</li> </ul>
<i>FY2005 Percentage of Competitive Funds</i>	72.95%	25.79%	1.26%

**Source:** The McKinney-Vento Homeless Assistance Act, Title IV, Subtitles C, E, and F, 42 U.S.C. §§11381-11389, 11401, and 11403-11407b. FY2007 Congressional Budget Justifications, p. D2.

## **Distribution of the Competitive Grants**

The three competitive grants are distributed to eligible applicant organizations through a complex, multi-step process that involves both formula and competitive elements. HUD first uses the CDBG formula to determine the need levels of local communities (generally, a combination of cities and counties); the need level is effectively the maximum amount of funding that a given community can receive. HUD then determines through a competition whether applicant organizations that provide services to the homeless qualify for funds. In the early years that the homeless assistance grants existed, individual homeless services providers applied to HUD directly for funds. However, since FY1996 HUD has required applicants to participate in a collaborative community process called the Continuum of Care (CoC) application system if they want to receive SHP, S+C, or SRO funds. For an overview of how funds are distributed, see **Figure 1**, at the end of this section.

**The Continuum of Care.** HUD developed the CoC as both a way for communities to plan services that will address the needs of the homeless, and the method through which service providers apply for HUD funds.<sup>40</sup> Under the CoC strategy, local communities establish CoC coordinating boards made up of representatives from local government agencies and service providers who meet to establish local priorities and strategies to address homelessness in their communities. The CoC plan that results from this process is meant to contain elements that address the continuum of needs of the homeless: prevention of homelessness, emergency shelter, transitional housing, permanent housing, and supportive services provided at all stages of housing.<sup>41</sup> The CoC system was created in 1993 as the Innovative Homeless Initiatives Demonstration Program, a grant program that provided funding to communities so that they could become more cohesive in their approach to serving the homeless.<sup>42</sup> Since then, nearly every community in the country has become part of a CoC, with approximately 474 CoCs in existence as of 2005, including those in the Territories.<sup>43</sup>

Since the FY1996 grant application process for the competitive homeless assistance grants, the CoC system has also been the vehicle through which local service providers apply for HUD competitive grants.<sup>44</sup> The process of applying for the competitive homeless assistance grants begins at the local level when individual applicant organizations apply to their CoC advisory boards to be included in a unified CoC application to HUD for funding. Continuums have flexibility in how they set up their application processes, called the “review and ranking” process, and may have written guidelines available for applicants. HUD requires that the process be fair, and CoCs must explain in their grant applications to HUD the methods they use to ensure fairness, together with a list of any complaints they received from applicant organizations.<sup>45</sup> Applicant organizations may also address fairness and other concerns directly to HUD.

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<sup>40</sup> The development of the Continuum of Care system is described in *Priority: Home! The Federal Plan to Break the Cycle of Homelessness*, The U.S. Department of Housing and Urban Development, 1994, pp. 73-75.

<sup>41</sup> Barnard-Columbia Center for Urban Policy, *The Continuum of Care: A Report on the New Federal Policy to Address Homelessness*, U.S. Department of Housing and Urban Development, December 1996, p. 9.

<sup>42</sup> See U.S. Department of Housing and Urban Development, “Funding Availability for Fiscal Year 1994 for Innovative Project Funding Under the Innovative Homeless Initiatives Demonstration Program,” *Federal Register* vol. 58, no. 243, December 21, 1993, pp. 67616-67618.

<sup>43</sup> “HUD-Defined CoC Names and Numbers Listed by State,” Revised March 10, 2006, available at [<http://www.hud.gov/library/bookshelf12/supernofa/nofa06/cocnames.pdf>].

<sup>44</sup> U.S. Department of Housing and Urban Development, “Continuum of Care Homeless Assistance; Funding Availability,” *Federal Register* vol. 61, no. 52, March 15, 1996, pp. 10865-10877.

<sup>45</sup> Exhibit I of Continuum of Care application, available at [[http://www.hudclips.org/sub\\_nonhud/html/pdfforms/40090-1.doc](http://www.hudclips.org/sub_nonhud/html/pdfforms/40090-1.doc)].

Each CoC selects the homeless assistance projects that it thinks should be funded and prioritizes them in a list that is included in an overall CoC application to HUD. The CoC application packet accompanying the list has multiple parts. It includes an overall CoC application with information about the CoC structure and assessment of community needs, and individual applications for each listed project that the CoC recommends for funding. Continuums send the entire application packet to HUD, which in turn determines the projects that will be funded, and how much funding each will receive. Note that HUD determines funding at the individual *project* level, not the CoC level, although HUD considers factors involving the CoC in making its decisions.

**HUD Determination of CoC Pro Rata Need.** Before the CoC applications even arrive at HUD, the agency goes through a process where it calculates each community's "pro rata need." Pro rata need is meant to represent the dollar amount that each community (cities and counties) needs in order to address homelessness. HUD determines a pro rata need amount for each community and then adds together the individual need amounts of the communities within a CoC to arrive at a pro rata need amount for the entire Continuum. This CoC pro rata need amount is essentially the maximum amount of HUD homeless assistance grant funds (not including S+C renewals) for which a CoC can qualify. HUD calculates pro rata need through a three-step process.

**Step One.** In the first step, HUD calculates *preliminary* pro rata need. HUD takes the proportion of funds each community is entitled to under the ESG program (which uses the CDBG formula), and multiplies this proportion by the total amount of competitive funds available to grantees (after subtracting the amount needed for S+C renewals) to arrive at a dollar amount of preliminary pro rata need. For example, if a city is eligible for 0.08% of total ESG funds, and \$1.1 billion is available for the competitive homeless assistance grants in a given year, the dollar amount of preliminary pro rata need assigned to that community is \$960,000. The preliminary pro rata need amount for each city and county within a CoC is then added together to arrive at a total preliminary pro rata need amount for the CoC.

**Step Two.** In the second step, HUD applies a hold harmless level of need in cases where the total cost of a CoC's one-year renewal of SHP contracts exceeds the preliminary pro rata need amount. In these cases, an amount equal to the difference between initial pro rata need and the cost of SHP renewals is added to initial pro rata need to bring the CoC up to a hold harmless level (effectively this means that the cost of SHP one-year renewals is the hold harmless level). For example, a Continuum's total cost of renewing SHP contracts is \$4 million, but the preliminary pro rata need is only calculated to be \$2.3 million. The difference between these two amounts (\$1.7 million) is added to preliminary pro rata need (\$2.3 million) to arrive at the hold harmless need level of \$4 million.

**Step Three.** In the third step, a Continuum may qualify for additional pro rata need funds through HUD's Samaritan Housing Initiative, an incentive to encourage the creation of permanent supportive housing for chronically homeless individuals.<sup>46</sup> If, in its grant application, a CoC ranks as its number one priority project a new (versus renewal) project that will provide permanent housing for the chronically homeless, it may receive additional pro rata need dollars up to a maximum of 15% of its preliminary pro rata need. For example, if a Continuum has a preliminary pro rata need of \$2 million with a hold-harmless level that brings its need level up to \$3 million, it may receive a Samaritan Housing bonus of \$300,000 (15% of \$2 million) added to its pro rata need of \$3 million, for a final pro rata need amount of \$3.3 million.

**Threshold Review.** When CoC applications arrive at HUD, the agency first goes through a threshold review of the individual project applications within each CoC application. In this process, HUD looks at various eligibility factors to ensure that every participant in the proposed projects (from applicant organizations to clients who will be served) are eligible for the homeless assistance grants for which they are applying. The following list is illustrative of the factors that HUD considers, and does not include every element that HUD reviews.<sup>47</sup>

- HUD confirms that applicants are eligible by law to operate the program for which they are seeking funds. For example, only PHAs and private nonprofit organizations may operate an SRO project.
- Individual applicants must show an ability to provide matching funds for their projects.
- The applications must demonstrate that the proposed projects are eligible for funding, for example that the population to be served is eligible for assistance, that the projects will be accessible to the disabled, that they are cost effective, and that the applicant organizations are participating (or will participate) in any local Homeless Management Information System.
- HUD assesses the potential quality of proposed projects by ensuring that the type of housing and its location fit the needs of participants, and that participants will be assisted with a variety of services.
- In order to receive funding, projects must comply with civil rights and fair housing requirements, employ, to the extent feasible, low- and very low-income persons, meet environmental requirements, and request funding in accordance with each grant's guidelines.

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<sup>46</sup> A chronically homeless person is defined as an individual with a disabling condition who has been continuously homeless for one year, or has had four episodes of homelessness in the last three years. See Department of Housing and Urban Development, "Consolidated Plan Revision and Updates," *Federal Register* vol. 71, no. 27, February 9, 2006, p. 6961. This definition will be published in 24 C.F.R. §91.5.

<sup>47</sup> For all of the eligibility factors, see FY2006 NOFA, pp. 12058-12062.

**Points for Continuum of Care Factors and Need.** In the final step, HUD reviews each individual project application and assigns points to each project that the Continuums have recommended for funding. Points are assigned in two categories: need, as determined through the pro rata need process, and Continuum of Care factors. The applicants may receive up to 40 points for need and up to 60 points for CoC factors, for a total score of 100 points. The point total is used to rank each project to determine which will be funded. Projects that score above a certain point threshold will receive full funding; this threshold number of points varies from year-to-year. Generally 80-85 points are required for a project to receive full funding. SHP projects that CoCs propose for renewal, but do not receive sufficient points to be renewed, may still receive funding through contract extensions. These extensions may be made for up to one year.<sup>48</sup>

**Points for Need.** HUD assigns need points to each individual project listed within a CoC application based on how highly the project is ranked in the application, but limited by the CoC's pro rata need. Projects will receive the maximum need score of 40 points if they are ranked highly enough within a CoC application. HUD goes through a CoC's priority list, adding together the requested funding for each project in the order they are ranked. As long as the *addition* of a project's requested funding amount does not bring the total amount of funds needed for the CoC above its total pro rata need, that project will receive 40 points. Those projects that bring the total amount of funds needed for the CoC above its pro rata need will receive 10 or 5 points.

For example, assume a CoC has proposed in its application to HUD that 10 projects receive funding, and HUD has assigned that CoC \$3.3 million in pro rata need. HUD will proceed through the list of ten projects and assign 40 need points to each project in the list, as long as the amount of additional funding required for each project does not bring the total dollars needed for the CoC above the \$3.3 million cap. If the Continuum requests the following dollar amounts for projects one through seven on its list — \$1.3 million, \$300,000, \$500,000, \$800,000, \$200,000, \$100,000, and \$100,000 (for a total of \$3.3 million) — then each of the seven projects will receive 40 points for need because the addition of the dollars needed for each project does not bring the total amount of funding required above \$3.3 million. However, projects eight through 10 will not receive 40 need points because the addition of their needed funds exceeds the pro rata need threshold. Instead, they will receive either 10 or five points. Those projects that bring the total funding needed for the CoC to an amount between the pro rata need dollar amount (\$3.3 million in this example) and twice the pro rata need (\$6.6 million) receive 10 points, and those that bring the total funding needed to an amount above twice the pro rata need receive five need points.

**Points for Continuum of Care Factors.** HUD also assigns each project points for Continuum of Care factors; the maximum number of points a project can score is 60. CoC points are based on the *Continuum's* application, not the individual project applications. Because of this, each project within a CoC application will

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<sup>48</sup> See HUD Questions and Answers for FY2006 NOFA, p. 19, available at [<http://www.hud.gov/library/bookshelf12/supernofa/nofa06/cocqa.doc>].

receive the same score on CoC factors. As a result, unless need points differ among projects in a CoC's application, each project in a CoC will receive the same number of points.

The CoC factors that HUD scores may vary from year to year. In the most recent Notice of Funding Availability for FY2006, there were five categories in which projects were scored.<sup>49</sup>

- **Organizational Structure:** HUD awards points for the existence of an inclusive community process to develop a CoC strategy, and a fair and impartial project review and selection process. A total of 8 points may be awarded in this category.
- **CoC Housing and Service Needs:** Continuums receive points for the existence of a strategy to address all aspects of homelessness and all populations in need of services. The category also includes points for a CoC's implementation of an HMIS to track and provide an unduplicated count of the homeless. A total of 12 points may be awarded in this category.
- **CoC Strategic Planning:** HUD awards points in this category to Continuums with 10-year plans to end chronic homelessness, and those with discharge policies for persons leaving institutional care (for example, correctional facilities, hospitals, or foster care). The category also considers whether CoCs propose projects that address unmet needs in the community, are able to estimate the cost to renew SHP and S+C projects for five years, and are able to leverage funds from other sources. A total of 10 points may be awarded in this category.
- **CoC Performance:** The factors considered in this category include steps that CoCs have taken to meet their goals, whether CoCs have increased the number of permanent housing beds for the chronically homeless, whether there has been a decrease in chronic homelessness, the success that homeless individuals have in remaining in permanent housing, the success of homeless individuals in gaining employment and access to available government programs and funds, the record of CoC projects in hiring low- and very low-income employees, and the existence of a local plan to remove regulatory barriers to affordable housing. A total of 18 points may be awarded in this category.
- **Emphasis on Housing Activities:** Within this category, HUD awards points to Continuums based on the percentage of funds to be used to provide housing (versus services). A total of 12 points may be awarded in this category.

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<sup>49</sup> FY2006 NOFA pp. 12064-12065.

**Allocation of the Grants.** Despite the fact that Continuums of Care serve as intermediaries between HUD and individual homeless service providers during the application process, funds go directly to service providers, not to the CoC. Projects receive funding for between one and ten years depending on the type of project and whether it is a new contract or a renewal. New SHP projects are funded for two or three years, while renewals are funded for one to three years.<sup>50</sup> Initial S+C contracts run for five years, renewals are made for one year at a time, and SRO projects are funded for ten years (renewals take place outside the homeless assistance grant application process).<sup>51</sup> Grant recipients enter into a grant agreement with HUD, and, if the grant involves construction, work must begin within 18 months of HUD's grant award letter and be completed within 36 months.<sup>52</sup> Activities that are not contingent on construction must begin within 12 months of receipt of the grant award letter.

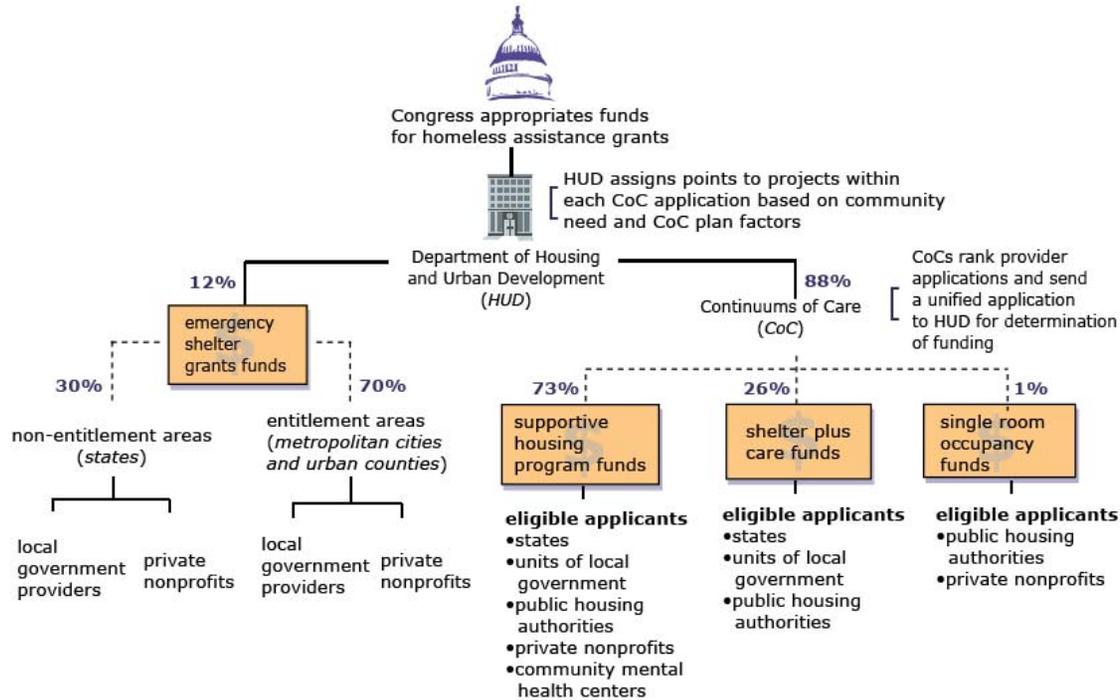
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<sup>50</sup> HUD FY2006 Application, Exhibit 2, p. 2, available at [[http://www.hudclips.org/sub\\_nonhud/html/pdfforms/40090-2.doc](http://www.hudclips.org/sub_nonhud/html/pdfforms/40090-2.doc)].

<sup>51</sup> Ibid.

<sup>52</sup> FY2006 NOFA, p. 12062.

**Figure 1. Distribution of the HUD Homeless Assistance Grants**



**Source:** Chart prepared by CRS based on 42 U.S.C. § 11373, “HUD FY2006 Notice of Funding Availability,” Federal Register, vol. 71, no. 45, March 8, 2006. Percentages are based on the FY2005 distribution of the Homeless Assistance Grants.

## Emerging Issues

Funding for the four homeless assistance grants was last authorized in FY1994 (P.L. 102-550). Since then no significant legislative changes have been made to any of the programs. In the ensuing years, however, there have been policy discussions in both Congress and the Administration about changing policies that would affect how the grants are distributed. These include making changes to the factors in the CDBG formula, consolidating the three competitive homeless assistance grants, and changing the way that renewals of the competitive SHP and S+C contracts are treated.

### The Role of the Community Development Block Grant Formula

Recently, both HUD and Congress have considered the possibility of changing factors in the CDBG formula. The CDBG formula has determined how ESG funds are distributed since the inception of the program in 1986, and has been used in the distribution of the competitive grants since at least FY1995. Over the years, the effectiveness of using the CDBG formula to target funds to the homeless has been questioned. Two General Accounting Office (now Government Accountability Office) reports from the late 1980s noted that the CDBG formula might not be the best way to target funds to areas that most need homeless assistance funds.<sup>53</sup> Congress, too, has questioned the relationship between the formula and homelessness. In FY2001, the Senate Appropriations Committee noted that “the CDBG formula has no real nexus to homeless needs,” and urged HUD to hasten its development of a method for counting the homeless.<sup>54</sup> HUD responded with a report that proposed alternative methods for determining community need for homeless assistance.<sup>55</sup> Nonetheless, HUD continues to use the CDBG formula, and changes to it would result in a different funding distribution for homeless assistance funds.

**The Current CDBG Formula.** The CDBG program was enacted to target funds to communities that are in need of community development. It awards funds to metropolitan cities and urban counties (70% of funds) and to the states for use in areas that do not receive funds directly (30% of funds).<sup>56</sup> The CDBG formula uses a combination of five factors to award funds to recipient communities. (The CDBG formula uses four separate methods to award funds; this paper does not discuss the

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<sup>53</sup> U.S. General Accounting Office, *Homelessness: Implementation of Food and Shelter Programs Under the McKinney Act*. GAO/RCED-88-63. December 1987, p. 33, available at [<http://archive.gao.gov/d29t5/134578.pdf>], and *Homelessness: HUD's and FEMA's Progress in Implementing the McKinney Act*. GAO/RCED-89-50. May 1989, pp. 46-48, available at [<http://archive.gao.gov/d25t7/138597.pdf>].

<sup>54</sup> S.Rept. 106-410. The statement was made regarding the competitive homeless assistance grants.

<sup>55</sup> U.S. Department of Housing and Urban Development. Office of Community Planning and Development. *Report to Congress: Measuring "Need" for HUD's McKinney-Vento Homeless Competitive Grants*, 2001.

<sup>56</sup> 42 U.S.C. §§5306(a) - (d).

details of these methods.) The five factors are population, the number of persons in poverty, housing overcrowding (homes in which there is more than 1.01 persons per room), the age of housing (the number of housing structures built prior to 1940), and the extent of growth lag in a given community (the lack of population growth in a community compared to the growth rate it would have had if it had grown at the rate of other communities).<sup>57</sup> The factors are measured as ratios between the recipient community and all grant recipients. The CDBG formula was last changed in 1977 (P.L. 95-128).

**Proposed Changes to the CDBG Formula.** In 2005, HUD issued a report that both analyzed the effectiveness of the CDBG formula in targeting communities that are in need of development and proposed alternative factors for the formula.<sup>58</sup> The HUD report reviewed several shortcomings of the formula. Among its criticisms was that the use of the population variable means that some fast-growing communities with low development needs may still receive increasing CDBG grants.<sup>59</sup> Another criticism was that the poverty variable may provide college towns with a disproportionate share of funds by counting college students as living in poverty.<sup>60</sup> A third potential problem with the formula the report noted was that the age of housing and growth lag factors do not necessarily reflect communities' needs for development. In some communities, housing built prior to 1940 has been rehabilitated and gentrified, while in others it has been torn down or subject to neglect.<sup>61</sup> As a result, some communities with refurbished pre-1940s housing may qualify for more CDBG funds than deteriorating communities that have demolished their older housing.

Shortly after the release of HUD's report, Congress held a series of hearings about the CDBG program and discussed the formula, among other issues.<sup>62</sup> A House of Representatives' report issued in January 2006 made a number of recommendations, including that there be periodic review of the CDBG formula, and that HUD and GAO together should discuss methods for determining need and alternative formula criteria.<sup>63</sup> In May 2006, HUD released proposed legislation that

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<sup>57</sup> 42 U.S.C. § 5306.

<sup>58</sup> Todd Richardson, *CDBG Formula Targeting to Community Development Need*, U.S. Department of Housing and Urban Development, February 2005, available at [<http://www.huduser.org/Publications/pdf/CDBGAssess.pdf>].

<sup>59</sup> *Ibid.*, p. 46.

<sup>60</sup> *Ibid.*, p. 47.

<sup>61</sup> *Ibid.*, pp. 48-50.

<sup>62</sup> House Committee on Government Reform, Subcommittee on Federalism and the Census, *A Top to Bottom Review of the Three-Decades-Old Community Development Block Grant Program: Is the CDBG Program Still Targeting the Needs of Our Communities*, 109<sup>th</sup> Cong., 1<sup>st</sup> sess., March 1, April 26, and May 24, 2005 (Washington: GPO, 2005).

<sup>63</sup> House Committee on Government Reform, Subcommittee on Federalism and the Census, *Bringing Communities Into the 21<sup>st</sup> Century: A Report on Improving the Community Development Block Grant Program*, 109<sup>th</sup> Cong., 2<sup>nd</sup> sess., H.Rept. 109-365 (Washington: (continued...))

would change factors in the CDBG formula and the way funds are distributed.<sup>64</sup> The proposed legislation would add three new factors: the number of female-headed households, the number of housing units over fifty years old and occupied by households in poverty, and per capita income. It would also exclude college students from the number of households living in poverty, and the population and growth lag factors would no longer be used. Congress did not consider legislation in the 109<sup>th</sup> Congress that would have made these changes to the formula.

## **Consolidation of the Competitive Homeless Assistance Grants**

In every year since FY2003, the President's budget has proposed to consolidate the three competitive homeless assistance grants (SHP, S+C, and SRO). Consolidation would eliminate the distinctions among the three grant programs, distribute the funds as one grant, and allow communities greater flexibility in determining funding priorities. Two pieces of legislation that were introduced in the 109<sup>th</sup> Congress — S. 1801 and H.R. 5041 — also proposed to consolidate the three programs. The idea of consolidation is not new. As early as the 104<sup>th</sup> Congress, legislation was introduced to consolidate all of the homeless assistance grants in Title IV of McKinney-Vento.<sup>65</sup> Over the years, HUD has also supported consolidation through proposed legislation.<sup>66</sup>

The proposals to consolidate the competitive grants in S. 1801 and H.R. 5041 would have codified the Continuum of Care application system with some changes from the current system. These changes would have streamlined the grant application process so that HUD could distribute funds more quickly. Under the proposals in both S. 1801 and H.R. 5041, HUD would review only the applications from Continuums rather than all applications from individual organizations seeking funding. This would mean the difference between reviewing hundreds rather than thousands of applications. HUD would then award funds directly to CoCs and largely leave it to them to determine how to distribute funds to local service providers. In addition, both bills would have required the same matching amount for all uses of grant funds (25% cash match), simplifying the current differing requirements for each of the three programs.

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<sup>63</sup> (...continued)  
GPO, 2006) p. 66.

<sup>64</sup> The proposed legislation, The Community Development Block Grant Reform Act of 2006, is available at HUD's website [<http://www.hud.gov/content/releases/pr06-056act.pdf>].

<sup>65</sup> See H.R. 30, 104<sup>th</sup> Congress, the Housing and Community Development Act of 1995.

<sup>66</sup> U.S. General Accounting Office. *Consolidating HUD's McKinney Programs: Statement of Stanley J. Czerwinski, Associate Director, Housing and Community Development Issues, Resources, Community, and Economic Development Division*. GAO/T-RCED-00-187. May 23, 2000, p. 9; available at [<http://www.gao.gov/archive/2000/rc00187t.pdf>].

## Renewals of the Competitive Homeless Assistance Grants

In recent years Congress has shown some concern about the cost of renewing existing permanent supportive housing contracts through the S+C and SHP programs, while also funding new permanent housing units.<sup>67</sup> Currently a large percentage of competitive homeless assistance grant funds are used to renew existing SHP and S+C contracts. For example, in FY2005 just under 80% of competitive grant funds were used to renew existing contracts, and renewal *projects* made up over 87% of all projects that were funded. (For the percentage allocation of the FY2005 competitive grants see **Figure 2**.) Since FY2001, Congress has set aside funds for S+C renewals in order to protect the existing permanent housing contracts, but SHP renewals are not similarly protected. They are simply part of the competition for all remaining funds. The proposed McKinney-Vento reauthorization bill, S. 1801, would have allowed the HUD Secretary to renew existing contracts for permanent housing in the SHP outside of the competitive process. H.R. 5041 would have allowed the Secretary similar discretion for renewing permanent housing contracts for persons with disabilities and/or addictions. While these proposals would have ensured that renewal needs are met, they would not have addressed concerns about adequate funding for new initiatives.

Congress has also shown concern over sufficient funds for both new and renewal projects due to the need for additional housing facilities to meet the needs of the chronically homeless.<sup>68</sup> The chronically homeless are defined as disabled individuals who have been homeless continuously for a year or more, or have had at least four episodes of homelessness in three years.<sup>69</sup> In 2002, President Bush established an initiative to end chronic homelessness within ten years, and as a result, many states and communities are making efforts to provide housing for chronically homeless individuals. It is estimated that 150,000 to 200,000 new housing units are needed in this effort.

HUD has changed the way it calculates pro rata need in order to help CoCs to free up funds for new permanent housing projects. With the FY2005 competition for available funds, HUD enabled CoCs to eliminate funding for existing SHP projects from their priority lists while still qualifying for the hold harmless level of pro rata need funds that would have been required to renew those SHP projects. This enables the funds that otherwise would have been directed toward renewals to be used to

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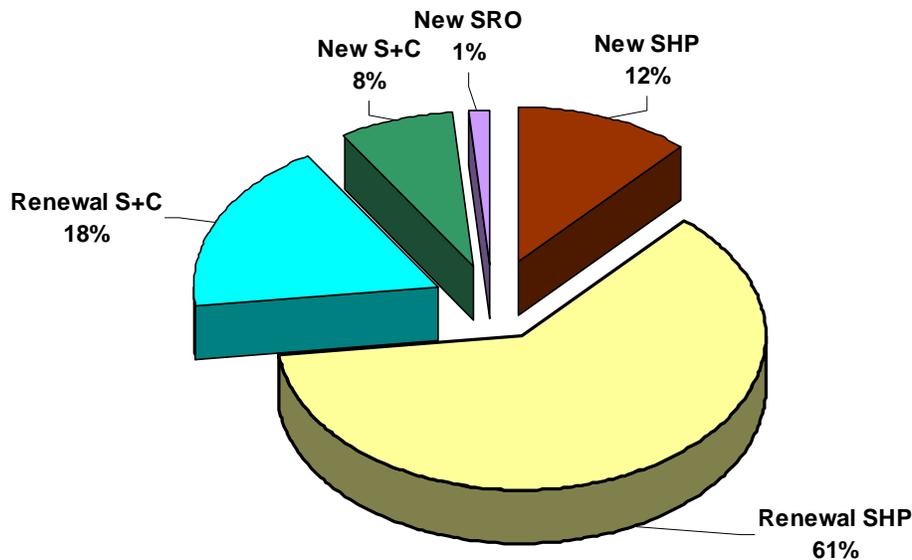
<sup>67</sup> In order to better anticipate the need for renewal funds, beginning in FY2002, Congress asked HUD to estimate five-year projections for renewing SHP and S+C contracts. Conference Report to accompany H.R. 2620, *Department of Veterans' Affairs, Housing and Urban Development, and Independent Agencies Appropriation Act*, 107<sup>th</sup> Cong., 1<sup>st</sup> sess., November 6, 2001, H.Rept. 107-272. HUD has provided these estimates in its FY2003, FY2006, and FY2007 Congressional Budget Justifications.

<sup>68</sup> See, for example, Senate Committee on Banking, Housing and Urban Affairs, Subcommittee on Housing and Urban Development, *HUD's Fiscal Year 2003 Budget and Legislative Proposals*, 107<sup>th</sup> Cong., 2<sup>nd</sup> sess., February 13, 2002, S. Hrg. 107-839, pp. 14-16, available at [[http://banking.senate.gov/\\_files/107839.pdf](http://banking.senate.gov/_files/107839.pdf)].

<sup>69</sup> *Federal Register* vol. 71, p. 6961.

create new permanent housing projects.<sup>70</sup> While this allows CoCs to defund projects that they do not think should receive grants, it does not address what CoCs can do about renewing projects they think are worth funding while also funding projects that would create new housing.

**Figure 2. FY2005 Percentage Allocation of Competitive Grants**



Source: HUD FY2007 Budget Justifications.

## Emphasis on Housing

The Continuum of Care system was designed to give communities freedom to determine the needs of their homeless individuals and to support programs that meet those needs. However, both HUD and the Administration, through its initiative to end chronic homelessness, have come to favor, to some degree, the use of HUD funds for the provision of housing, and specifically housing for the chronically homeless.<sup>71</sup> In FY2005, 55% of competitive grant funds went to housing projects and 40% went to fund services.<sup>72</sup> Of the funds dedicated to housing activities, 30%

<sup>70</sup> U.S. Department of Housing and Urban Development, "Notice of Funding Availability, Continuum of Care Homeless Assistance," *Federal Register*, vol. 70, no. 53, March 21, 2005, pp. 14283-14284.

<sup>71</sup> A chronically homeless person is defined as an individual with a disabling condition who has been continuously homeless for one year, or has had four episodes of homelessness in the last three years.

<sup>72</sup> Statement of Mark Johnston, Deputy Assistant Secretary for Special Needs, HUD Office of Community Planning and Development, FY2006 Continuum of Care NOFA Webcast, March 28, 2006, available at [<http://www.hud.gov/offices/cpd/homeless/index.cfm>].

funded projects for the chronically homeless.<sup>73</sup> According to HUD, the emphasis on housing activities is due to the fact that it is the only agency that provides funds for housing, while other agencies provide funds for supportive services.<sup>74</sup>

The CoC application process awards additional CoC points to project applicants in Continuums that emphasize housing needs over supportive services. The number of points in the “emphasis on housing” category has increased over the years. Beginning with the FY2002 competition, applicants could qualify for up to five points in this “emphasis on housing” category, in FY2003 and FY2004, they could qualify for up to 10 points, and in the last two competitions (for FY2005 and FY2006), applicants could qualify for up to 12 points in this category. Applicants receive more points the higher the percentage of funds their CoC proposes to devote to housing activities. In FY2005, the 12 points awarded for an “emphasis on housing activities” in many cases made the difference between projects that reached the point threshold to receive funding, and those that did not.<sup>75</sup>

The President’s initiative to end chronic homelessness has brought focus upon the need for housing due, in part, to research showing that providing permanent supportive housing for the severely mentally ill who are chronically homeless is less expensive than allowing them to remain on the street.<sup>76</sup> HUD has incorporated the needs of the chronically homeless in the Continuum of Care application system for the competitive homeless assistance grants. HUD awards CoC points to applicants if their CoCs have developed 10-year plans to end chronic homelessness.<sup>77</sup> CoCs can also receive additional funds if they propose in their application to fund a permanent supportive housing project for the chronically homeless.

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<sup>73</sup> Ibid.

<sup>74</sup> Ibid.

<sup>75</sup> Ibid.

<sup>76</sup> See Dennis P. Culhane, Stephen Metraux, and Trevor Hadley, “Public Service Reductions Associated with Placement of Homeless Persons with Severe Mental Illnesses in Supportive Housing,” *Housing Policy Debate*, vol. 13, no. 1 (2002), p. 107, available at [[http://www.fanniemaefoundation.org/programs/hpd/pdf/hpd\\_1301\\_culhane.pdf](http://www.fanniemaefoundation.org/programs/hpd/pdf/hpd_1301_culhane.pdf)].

<sup>77</sup> FY2006 NOFA, p. 12064.