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Community Development Block Grants: Funding Issues in the 113th Congress

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Summary

On March 4, 2014, the Obama Administration released its FY2015 budget request, which includes $2.870 billion for activities under the Community Development Fund (CDF) administered by the Department of Housing and Urban Development (HUD), including $2.8 billion for formula grants. On June 5, 2014, the Senate Appropriations Committee reported S. 2438, its version of the Departments of Transportation, and Housing and Urban Development, and Independent Agencies Appropriations Bill for FY2015 (THUD), which recommends $3.090 billion for activities funded under the Community Development Fund (CDF) account, including $3.020 billion for formula grants. On June 10, 2014, the House approved its version of the THUD bill for FY2015, H.R. 4745. The House bill recommends $3.060 billion for activities funded under the CDF account, including $3.0 billion for CDBG formula grants.

On January 17, 2014, President Obama signed the Consolidated Appropriations Act for FY2014, P.L. 113-76, which included $3.100 billion in funding for the CDF. Of the total amount appropriated for CDF activities $3.030 billion is appropriated for formula-based Community Development Block Grants (CDBG) to be allocated to CDBG entitlement communities, states, and insular areas. The act also appropriated $70 million in CDBG competitively awarded funds to Indian tribes and converted Section 108 loan guarantees from a federal credit subsidy to a fee-based program.

On July 30, 2013, the House began floor consideration of H.R. 2610, a bill that would have appropriated funds for the Departments of Transportation and Housing and Urban Development and Related Agencies for FY2014 (THUD). On July 31, 2013, the Senate began consideration of S. 1243, its version of the THUD Appropriations Act for FY2014. The bill, which was reported by the Senate Appropriations Committee on July 27, 2013 (S.Rept. 113-45), recommended $3.295 billion for activities funded under the CDF account.

The Obama Administration's budget request for FY2014, released on April 10, 2014, included $3.143 billion for activities funded under HUD's CDF account. The Administration's FY2014 budget proposal would have increased total funding for CDF activities by a modest $8 million from $3.135 billion in FY2013 to $3.143 billion. The proposed budget would have reduced funding for CDBG formula grants by $280 million to $2.798 billion and would have redirected most of those funds to two other activities within the CDF account:

- $75 million for regional planning grants, which was a component of the Administration's Sustainable Communities Initiative; and
- $200 million for a new Neighborhood Stabilization Initiative that was intended to assist local governments to identify and demolish an oversupply of abandoned and foreclosed properties.

In addition, the Administration's FY2014 budget included a proposal that doubled the Section 108 loan guarantee program's loan commitment ceiling from $229 million in FY2013 to $500 million in FY2014. In addition to an increase in the loan commitment ceiling, the Administration proposed revamping the program by charging a fee-based assessment to borrowers accessing the program, which would have eliminated the need for an appropriated credit subsidy. The House Appropriations Committee report accompanying H.R. 2610 supported the Administration's Section 108 loan guarantee proposals that recommended an increase in the loan commitment ceiling and conversion of the program to a fee-based approach.

The 112th Congress began, but did not complete, consideration of appropriation measures that would have provided full-year funding for THUD for FY2013, before adjourning. The 113th Congress took up consideration of HUD's FY2013 appropriations as part of a larger measure providing consolidated appropriations for a number of federal departments. On March 26, 2013, the President signed into law P.L. 113-6, the Consolidated and Further Continuing Appropriations Act, 2013. The act included $3.1 billion for CDF activities. In late January 2013, Congress approved and the President signed P.L. 113-2, a disaster supplemental appropriation that included $15.2 billion for CDBG disaster relief and recovery activities in response to Hurricane Sandy and other disasters. Both the CDF FY2013 regular appropriation and the CDF disaster funds were subject to 5% sequestration mandated by the Budget Control Act. This report will be updated as events warrant.

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Recent Developments

On June 10, 2014, the House approved H.R. 4745, the Departments of Transportation, and Housing and Urban Development, and Independent Agencies Appropriations Bill for FY2015 (THUD). The House-passed bill (H.R. 4745) recommends $3.060 billion for activities funded under the Community Development Fund (CDF) account, including $3 billion for CDBG formula grants. Five days earlier, on June 5, 2014, the Senate Appropriations Committee reported its version of the THUD Appropriations Bill for FY2015, S. 2438. The bill (S. 2438) recommends $3.090 billion for activities funded under the CDF account, including $3.020 billion for CDBG formula grants. On March 4, 2014, the Obama Administration released its FY2015 budget request, which includes $2.870 billion for activities under the Community Development Fund (CDF) administered by the Department of Housing and Urban Development (HUD). In addition, the Administration has announced that it will submit a package of legislative reforms to the program later this year.

FY2015 Appropriations

The CDF account administered by the Department of Housing and Urban Development (HUD) includes the Community Development Block Grants (CDBG), and Section 108 loan guarantees. In addition, the CDF account has in the past included funding for Section 4 capacity building grants and the Administration's Sustainable Communities Initiatives, as well as other initiatives in support of the formula-based CDBG program. The CDBG program is the federal government's largest and most widely available source of financial assistance supporting state and local government-directed neighborhood revitalization, housing rehabilitation, and economic development activities. These formula-based grants are allocated to approximately 1,183 entitlement communities (metropolitan cities with populations of 50,000, principal cities of metropolitan areas, and urban counties); the 50 states; Puerto Rico; and the insular areas of American Samoa, Guam, the Virgin Islands, and the Northern Mariana Islands. Grants are used to implement plans intended to address housing, community development, and economic development needs, as determined by local officials.

The Administration's Budget Request

The Obama Administration's budget request for FY2015 includes $2.870 billion for activities funded under HUD's CDF account. The requested amount represented 6.1% of the $46.7 billion in budget authority requested by the agency for FY2015.

The Administration's FY2015 budget proposal would decrease total funding for CDF activities by $230 million from $3.100 billion in FY2014 to $2.870 billion. The proposed budget would decrease total funding for the CDF account and the CDBG formula grants by 7.6%, reducing funding for CDBG formula grants from $3.030 billion appropriated in FY2014 to $2.800 billion. The remaining $70 million requested by the Administration would be used to fund competitively awarded CDBG funds to Indian tribes.

The budget proposal also requests funding, under separate HUD accounts, for Section 4 capacity building, Integrated Planning and Investment Grants (a component of the Administration's previously funded Sustainable Communities Initiative (SCI)), and Neighborhood Stabilization

Program (NSP) activities under its Project Rebuild proposal. These activities were previously funded under the CDF account.

Table 1. CDBG and Related Appropriations: FY2014 Enacted and FY2015 Proposed

(in millions of dollars)

Program	FY2014 Enacted P.L. 113-76	FY2015 Admin. Request	FY2015 House Cmte.	FY2015 Senate Cmte.	FY2015 Conference
CDF, Total[a]	**3,100.0**	**2,870.0**	**$3.060**	**$3.090**	
CDBG-formula	3,030.0	*2,800.0*	3.000	3.020	
Entitlement Communities	2,116.1	*1955.1*	*2.095*	*2.109*	
States	906.9	*837.9*	*898*	*904*	
CDBG Insular areas	*7.0*	*7.0*	*0.007*	*0.007*	
CDBG Indian Tribes	70.0	70.0	0.060	0.070	
Section 107 (technical assistance)[b]	0.0	0.0	0.0	0.0	
CDBG Subtotal	**3,100.0**	**2,870.0**	**$3.060**	**$3.090**	
Rural Innovation Fund	0.0	0.0	0.0	0.0	
Neighborhood Stabilization	0.0	0.0	0.0	0.0	
University Community Fund	0.0	0.0	0.0	0.0	
Capacity Building Sec. 4 Grants[c]	—	—	—	—	
Sustainable Communities	0.0	0.0	0.0	0.0	
Regional Integration Planning Grants	0.0	0.0	0.0	0.0	
Community Challenge Grants	0.0	0.0	0.0	0.0	
HUD-DOT Integration Research	0.0	0.0	0.0	0.0	
Transfer to the Transformation Initiative (TI)	0.0	0.0[d]	0.0	0.0	
CDBG-related set-asides and earmarks	**0.0**	**0.0**	**0.0**	**0.0**	

Source: Prepared by CRS based on P.L. 113-76 and the Administration's FY2015 budget submission.

a. Limits the percentage of funds under the account that may be used to cover planning, management, and administrative expenses to no more than 20% of any grant awarded under this account.

b. Funds may be made available under the Department's Transformation Initiative account. P.L. 113-76 appropriates $40 million for activities under the Transformation Initiative account.

c. Funded under a separate account. Previously funded under CDF account.

d. The Administration's FY2015 budget requests that the Secretary be given the authority to transfer up to 0.5% from selected accounts department-wide to the agency's Transformation Initiative. The Secretary would be granted the authority to use TI funds to carry out activities in three areas: research and evaluation; program demonstration; and technical assistance.

Community Development Block Grants—Formula Grants

Under the Administration's FY2015 budget proposal funding for the CDBG formula grants would decline by $230 million from the amounts appropriated for FY2014. For FY2015, the Administration requests $2.800 billion for the CDBG formula component of the CDF account, including

- $1.955 billion for CDBG entitlement communities;
- $838 million for CDBG state administered program; and
- $7 million for insular areas.

This is approximately 7.6% less than the amount appropriated for FY2014. The Administration has also requested $70 million for Indian tribes, which is the same amount appropriated in FY2014.

The Administration, when releasing its FY2015 budget request, noted that it plans to propose revisions and reforms to the program. According to the Administration's budget documents

> This legislative package will focus on reforms that strengthen the CDBG program; help grantees target funding resources to areas of greatest need; enhance program accountability; synchronize critical program cycles with the consolidated plan cycle; reduce the number of small grantees; and provide more options for regional coordination, administration, and planning. Regional coordination will allow grantees to achieve administrative savings and pool resources to make strategic investment decisions.[1]

The Administration, when submitting its FY2015 budget request, also identified proposed reforms to the program, including reducing the number of small grantees and reforming the program's allocation formula, but did not submit formal proposals.

Integrated Planning and Investment Grants

The Administration's FY2015 budget recommends $75 million in funding for Regional Integrated Planning and Investment Grants (RIPIG), a component of the Administration's Sustainable Communities Initiatives (SCI). For FY2015 the Administration has requested an appropriation of $75 million to fund RIPIGs. This is the same amount requested, but not funded, in the FY2014 appropriations cycle. Although proposed as a freestanding program, program activities were previously funded under the CDF account.

If funded, RIPIGs would be competitively awarded to states, counties, metropolitan regions, and cities to support metropolitan-wide housing, transportation, economic development, energy, and land use planning. This would be a multi-agency initiative involving the Department of Transportation, the Environmental Protection Agency, and other federal agencies. The Administration has not yet submitted a formal proposal or articulated how RIPIGs differ from previous Administration proposals that have been rejected by Congress.

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[1] Office of Management and Budget, Executive Office of the President, *Budget of the United States FY2015*, Appendix, Washington, DC, March 4, 2014, p. 582, http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/hud.pdf.

Neighborhood Stabilization Program: Project Rebuild

The Administration is again proposing the creation of Project Rebuild, a $15 billion program that would build upon the success of the Neighborhood Stabilization Initiative, created by Congress to assist the most impacted communities affected by the mortgage foreclosure crisis acquire, rehabilitate, demolish, and resell abandoned and foreclosed residential properties. The Administration proposes to expand the program to include commercial properties. Funds would be allocated by formula to states and local governments and would also be awarded competitively to states and local governments working collaboratively with non-profit and for-profit partners.

Section 108 Loan Guarantees[2]

The CDBG Section 108 Loan Guarantee program (Section 108) allows states and entitlement communities to borrow up to five times their annual allocation for a term of 20 years through the public issuance of bonds to support large-scale economic development and housing projects. The Administration's budget proposes a loan commitment ceiling of $500 million in FY2015. FY2015 marks the first year the program will charge a fee to access the program rather than provide a credit subsidy. The fee-based proposal, which was first floated by the Administration in its FY2010 budget request, was not approved by Congress until the FY2014 appropriations. HUD has announced that it will issue regulations sometime this year. In the interim, grantees can continue to apply for the credit subsidy until it is depleted.

House-Passed Bill (H.R. 4745)

On June 10, 2014, the House approved H.R. 4745, the Departments of Transportation, and Housing and Urban Development, and Independent Agencies Appropriations Bill for FY2015 (THUD). The House-passed bill (H.R. 4745) recommends $3.060 billion for activities funded under the CDF account, including $3.0 billion for CDBG formula grants awarded to states, entitlement communities, and insular areas. This is $30 million (1%) less than the $3.030 billion appropriated in FY2014 for formula grants, $200 million (7%) more than requested by the Administration, and $20 million (0.7%) less than recommended by the Senate bill, S. 2438. The bill would appropriate $10 million less than the $70 million recommended by the Senate bill and requested by the Administration for Indian tribes.

During floor consideration of the bill, the House approved an amendment (H.Amdt. 828) that would prohibit HUD from terminating the CDBG entitlement status of any community. The provision is an effort to protect the entitlement status of communities that may no longer meet statutory requirements for a direct formula-based allocation since it is anticipated that the Administration will seek statutory changes in the program eligibility requirements that will have the net effect of reducing the number of entitlement communities.

H.R. 4745 does not include funds to support a new round of funding for Integrated Planning Grant activities. The House bill does include language supporting the conversion of Section 108 loan guarantees to a fee-based structure and recommends a loan guarantee ceiling of $500 million. The bill would fund Section 4 (Capacity Building for Community Development and

[2] This program is authorized by 42 U.S.C. §5308.

Affordable Housing) under a separate, stand-alone account and not as a component of the CDF account, or its current account, the Self-Help Homeownership Opportunity Program account.

Senate Appropriations Committee-Passed Bill (S. 2438)

On June 5, 2014, the Senate Appropriations Committee reported its version of the THUD Appropriations Bill for FY2015, S. 2438. The Senate Committee-passed bill (S. 2438) recommends $3.090 billion for activities funded under the CDF account, including $3.020 billion for CDBG formula grants awarded to states, entitlement communities, and insular areas. This is $10 million less than the $3.030 billion appropriated in FY2014 for formula grants and $220 million more than requested by the Administration. S. 2438 supports the Administration's $70 million funding request for Indian tribes, including a set-aside of $10 million in grant funds for mold remediation and prevention in Indian housing.

The bill also supports a loan commitment ceiling of $500 million for the Section 108 loan guarantee program and recommends continued funding of Section 4 (Capacity Building for Community Development and Affordable Housing) activities at the $35 million appropriation level. The bill does not support the Administration's request to transfer the Section 4 program from its current account, the Self-Help Homeownership Opportunity Program account, to a new stand-alone account; nor does the bill recommend funding the Administration's Neighborhood Stabilization Initiative proposal.

The bill includes a provision that would prohibit a community from exchanging or transferring its CDBG allocation to another community in exchange for non-CDBG funds. The provision is intended to stop the practice, most prevalent in Los Angeles County, of affluent communities, such as Beverly Hills, not participating in the county's CDBG program. In addition, the report (S.Rept. 113-182) accompanying the bill includes language directing HUD to establish a demonstration program using $2 million in CDBG funds to develop best practices that will aid communities in expediting their post-disaster recovery efforts.

FY2014 Appropriations

The Administration's Budget Request

The Obama Administration's budget request for FY2014, released on April 10, 2013, included $3.143 billion for activities funded under HUD's CDF account. The requested amount represented 6.6% of the $47.6 billion in budget authority requested by the agency for FY2014.

The Administration's FY2014 budget proposal would have increased total funding for CDF activities by a modest $8 million from $3.135 billion in FY2013 to $3.143 billion. Although the proposed budget would have marginally increased total funding for the CDF account it would have reduced funding for CDBG formula grants by $280 million to $2.798 billion. It would have redirected most of the $280 million to two other activities within the CDF account:

- $75 million for regional planning grants; and

- $200 million for a new Neighborhood Stabilization Initiative intended to assist local governments in identifying and demolishing an oversupply of abandoned and foreclosed properties.

The budget proposal also requested funding for Section 4 capacity building activities under a separate HUD account.

Table 2. CDBG and Related Appropriations: FY2013 and FY2014

(in millions of dollars)

Program	FY2013 Enacted P.L. 113-5[a]	FY2014 Admin. Request	FY2014 House Cmte.	FY2014 Senate Cmte.	FY2014 P.L. 113-76
CDF, Total[b]	**3,135.1**	**3,143.1**	**1,696.8**	**3,295.0**	**3,100.0**
CDBG-formula	*3,078.2*	*2,798.1*	*1,636.8*	*3,150.0*	3,030.0
Entitlement Communities	*2,149.8*	*1,953.8*	*1,140.9*	*2,200.1*	2,116.1
States	*921.4*	*837.3*	*488.9*	*942.9*	906.9
CDBG Insular areas	*7.0*	*7.0*	*7.0*	*7.0*	*7.0*
CDBG Indian Tribes	56.9	70.0	60.0	70.0	70.0
Section 107 (technical assistance)[c]	0.0	0.0	0.0	0.0	0.0
CDBG Subtotal	**3,135.1**	**2,868.1**	**1,696.8**	**3,220.0**	**3,100.0**
Rural Innovation Fund	0.0	0.0	0.0	0.0	0.0
Neighborhood Stabilization	0.0	200.0	0.0	0.0	0.0
University Community Fund	0.0	0.0	0.0	0.0	0.0
Capacity Building Sec. 4 Grants[d]	0.0[e]	0.0[f]	—[g]	—[g]	—[g]
Sustainable Communities	0.0	0.0	0.0	0.0	0.0
Regional Integration Planning Grants	*0.0*	*75.0*	0.0	*75.0*	0.0
Community Challenge Grants	*0.0*	*0.0*	0.0	*0.0*	0.0
HUD-DOT Integration Research	*0.0*	*0.0*	0.0	*0.0*	0.0
Transfer to the Transformation Initiative	0.0	0.0[g]	0.0	0.0	0.0
CDBG-related set-asides and earmarks	**0.0**	**275.0**	**0.0**	**75.0**	**0.0**
Disaster relief supplemental, P.L. 113-2	**15,200.0**	**0.0**	**0.0**	**0.0**	**0.0**

Source: Prepared by CRS based on P.L. 112-55 and the Administration's FY2013 budget submission.

a. Amount reflects an across-the-board rescission of 0.2% and a reduction of approximately 5% due to sequestration.

b. Limits the percentage of funds under the account that may be used to cover planning, management, and administrative expenses to no more than 20% of any grant awarded under this account.

c. Funds may be made available under the Department's Transformation Initiative account. P.L. 113-76 appropriates $40 million for activities under the Transformation Initiative account.

d. Funds are to be awarded to three national intermediaries: Local Initiative Support Corporation, Enterprise Foundation, and Habitat for Humanity with a least $5 million in such assistance allocated for rural capacity building activities.

e. For FY2013, $33.2 million was appropriated under a separate Self-Help Housing Assistance Program (SHOP) account.

f. The Administration's budget requested that the Secretary be given the authority to transfer up to 0.5% or no more than $80 million from selected accounts department-wide to the agency's Transformation Initiative. For the CDF account the Secretary would have been allowed to transfer up to $15 million or 5%, whichever was less, of the total appropriation under the account to the Department's Transformation Initiative (TI). The Secretary would have been granted the authority to use TI funds to carry out activities in three areas: research and evaluation; program demonstration; and technical assistance.

g. The Senate bill, S. 1243, recommends $35 million under a separate Self-Help and Assisted Homeownership Opportunity Program account, H.R. 2610, recommends an appropriations $15 million for capacity building activities under the Self-Help and Assisted Homeownership Opportunity Program account. P.L. 113-76 appropriates $35 million under a separate Self-Help and Assisted Homeownership Opportunity Program account.

Community Development Block Grants—Formula Grants

Under the Administration's FY2014 budget proposal funding for the CDBG formula grants would have declined by $280.1 million from the amounts appropriated for FY2013. For FY2014, the Administration requested $2.798.1 billion for the CDBG formula component of the CDF account, including

- $1.954 billion for CDBG entitlement communities;
- $837 million for CDBG state administered program; and
- $7 million for insular areas.

This was approximately 9% less than the amount appropriated for FY2013. The Administration also requested $70 million for Indian tribes, which was approximately $13 million (22.8%) more than the amount appropriated in FY2013.

Sustainable Communities Initiatives (SCI)

The Administration's FY2014 budget recommended reinstating funding for Regional Integration Planning Grants, a component of the Administration's Sustainable Communities Initiatives (SCI). The SCI is a set of planning-oriented grants first proposed by the Obama Administration in its FY2010 budget and initially funded at $150 million. The programs were not funded in FY2012 or FY2013. For FY2014 the Administration requested an appropriation of $75 million to fund the SCI's regional Integrated Planning Grants (IPGs). The Administration noted that IPGs, if funded, would be competitively awarded to 20 to 30 states, counties, metropolitan regions, and cities to support efforts to develop effective models that would integrate the planning requirements of various disciplines critical to the development of sustainable communities. This was to be done in collaboration with the Department of Transportation (DOT), the Environmental Protection Agency (EPA), and other federal agencies. Grant awards would have focused on metropolitan-wide housing, transportation, economic development, energy, and land use planning.

The Administration's FY2014 budget did not include funding requests for other components of the SCI that were funded in previous years, including Community Challenge Grants (CCG). Approximately $30 million was appropriated for CCG activities for FY2011, the last year SCI activities were funded. Funds were competitively awarded to selected communities to reform existing building codes, land use, and zoning ordinances with the goal of promoting sustainable growth and discouraging inefficient land use patterns. These funds were awarded to individual communities to assist them in developing local complement to the larger regional integration planning grants.

Congress has not funded SCI activities since FY2011, and the report (H.Rept. 112-541) accompanying the House version of the FY2012 THUD appropriations measure (H.R. 5972, 112th Congress) noted that the SCI was unauthorized and did not have the support of the committee of jurisdiction, the House Financial Services Committee. Instead, the bill recommended just over $2 million in HUD's Management and Administration account for activities related to the closeout and evaluation of previously awarded SCI awards.[3]

Neighborhood Stabilization Initiative

In response to the mortgage foreclosure crisis that began to unfold in 2007, Congress passed a series of measures intended to assist states and local governments address the growing inventory of abandoned and foreclosed residential properties. In 2008, Congress passed the Housing and Economic Recovery Act of 2008 (HERA), P.L. 110-289, which created the Neighborhood Stabilization Program (NSP).[4] Using the administrative framework of the Community Development Block Grant (CDBG) program, a total of $3.92 billion in NSP-1[5] funds was allocated to 309 recipients, including all 50 states, Puerto Rico, insular areas, and qualified local governments. Funds were awarded by formula based on a state or locality's concentration of foreclosed homes, subprime mortgage loans, and delinquent home mortgages. NSP funds may be used to assist local governments, working with nonprofit and for-profit entities, acquire, resell, demolish, and finance abandoned and foreclosed properties in an effort to revitalize neighborhoods, stabilize home values, and provide homeownership opportunities for moderate and low income households. Funds may also be used for land banking activities.

Since the passage of HERA, Congress appropriated an additional $3 billion in NSP funds to assist state and local governments acquire, rehabilitate, demolish, and resell the inventory of abandoned and foreclosed residential properties. In 2009, Congress appropriated $2 billion for NSP-2 activities when it passed the American Recovery and Reinvestment Act, P.L. 111-5. Unlike NSP-1, which was awarded by formula, NSP-2 funds were awarded competitively and included non-profit and for-profit entities as direct recipients of funds when teamed with a state or local government. In 2010, Congress appropriated $1 billion for a third round of funding (NSP-3)

[3] U.S. Congress, House Committee on Appropriations, Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, *Departments of Transportation and Housing and Urban Development and Related Agencies Appropriations for FY2013D*, report to accompany H.R. 5972, 112th Cong., 2nd sess., June 20, 2012, H.Rept. 112-541 (Washington: GPO, 2012), p. 76.

[4] NSP was authorized under Division B, Title III - Emergency Assistance for the Redevelopment of the Abandoned and Foreclosed Homes of HERA, 122 Stat. 2850.

[5] The designation NSP-1 is used to distinguish funds awarded under HERA from subsequent appropriations for NSP activities awarded under two subsequent measures: American Recovery and Reinvestment Act (NSP-2); and the Dodd-Frank Wall Street Reform and Consumer Protection Act (NSP-3).

under the Dodd-Frank Wall Street Reform and Consumer Protection Act, P.L. 111-203. The act also used a formula to award funds to state and qualifying local governments with high concentrations of foreclosed homes, subprime mortgages, and delinquent or defaulted residential mortgages.

Despite the success of the NSP program a significant inventory of abandoned and foreclosed properties persists in some communities. The Obama Administration's FY2014 budget request included a proposal requesting an additional $200 million in NSP funds. These funds (NSP-4) would have been awarded competitively to states, local governments, and state housing finance agencies. Funds would have been targeted to the hardest hit areas with large concentrations of vacant, foreclosed, abandoned, and blighted homes. Grantees would have been required to demonstrate need and the capacity to leverage other funds. The proposal would have allowed funds to be used for activities such as acquisition, demolition, clearance, and land banking.

Section 108 Loan Guarantees

The CDBG Section 108 Loan Guarantee program (Section 108) allows states and entitlement communities to collateralize their annual CDBG allocation in an effort to attract private capital to support economic development activities, housing, public facilities, and infrastructure projects. Communities may borrow up to five times their annual allocation for a term of 20 years through the public issuance of bonds. The proceeds from the bonds must be used to finance activities that support job creation and that meet one of the national goals of the CDBG program. The activity must principally benefit low or moderate income persons, aid in preventing or eliminating slums or blight, or address an urgent threat to residents. Each community's current and future annual CDBG allocation serves as security in case of default. Financing is pegged to yields on U.S. Treasury obligations of similar maturity to the principal amount.[6]

The Administration's budget proposed doubling the program's loan commitment ceiling from $229 million in FY2013 to $500 million in FY2014. The Administration's budget justification noted that, given the continued difficulties in the credit markets, the proposed increase in funding would help local governments finance large-scale job creation activities. In addition to an increase in the loan commitment ceiling, the Administration proposed revamping the program by charging a fee-based assessment to borrowers accessing the program, which would eliminate the need for an appropriated credit subsidy. The HUD proposal would have allowed loan guarantee borrowers to fold the proposed fee into the loan guarantee amount or would have allowed CDBG funds to be used to pay the proposed fee. This proposal was first made by the Administration in its FY2010 budget request, but it has been rejected by Congress in the succeeding budget years in favor of maintaining the status quo.

Senate Appropriations Committee Bill (S. 1243)

On June 27, 2013, the Senate Appropriations Committee reported S. 1243, a bill that recommended appropriations for the Departments of Transportation and Housing and Urban

[6] The Credit Reform Act of 1990 requires federal agencies administering credit programs to estimate a program's subsidy rate and to request an appropriation to cover that cost. A credit subsidy is intended to cover the estimated long-term cost to the federal government of a direct loan or loan guarantee. For loan guarantees, the subsidy cost is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, or other payments, offset by any payments to the government, including origination and other fees, penalties, and recoveries.

Development and Related Agencies for FY2014. The bill recommended $3.295 billion for activities funded under the CDF account, including $3.150 billion for CDBG formula grants awarded to states, entitlement communities, and insular areas. This was 7% more than the $3.078 billion appropriated in FY2013 for formula grants, excluding the $15.2 billion in disaster-related supplemental funding for FY2013. S. 1243 supported the Administration's $70 million funding request for Indian tribes, including a set-aside of $10 million in grant funds for mold remediation and prevention in Indian housing.

The bill recommended full funding ($75 million) for the Administration's Integrated Planning Grants, which has not been funded since FY2011. As reported by the Senate committee, the bill also supported the Administration's budget request calling for the conversion of Section 108 loan guarantees to a fee-based program, and an increase in the program's loan guarantee commitment to $500 million for FY2014 from the $229 million approved for FY2013. The Senate committee bill recommended continued funding of Section 4 (Capacity Building for Community Development and Affordable Housing) activities at the $35 million appropriation level, but did not support the Administration's request to transfer the program from its current account, the Self-Help and Homeownership Opportunity account, to a new stand-alone account.

The Senate bill did not include language supporting an Administration proposal that would have established a minimum CDBG allocation. The report (S.Rept. 113-45) accompanying the bill directed HUD to encourage communities that receive small awards to enter into joint grant agreements with their urban counties as a means of achieving administrative efficiencies. The bill did not include funding for the Administration's Neighborhood Stabilization Initiative (NSI) proposal.

House Bill (H.R. 2610)

The House Appropriations Committee reported the THUD Appropriations Act for FY2014 on July 2, 2013. The bill, H.R. 2610, as reported by the committee, recommended $1.697 billion for activities funded under the CDF account, including $1.637 billion for CDBG formula grants awarded to states, entitlement communities, and insular areas. This was 47% less than the $3.078 billion appropriated in FY2013 for formula grants and 48% less than recommended in the Senate bill, S. 1243. H.R. 2610 would have appropriated $10 million less than the $70 million recommended by the Senate or requested by the Administration for Indian tribes. On June 30, 2014, the House began floor consideration of the bill. During floor consideration of the bill, the House approved, by voice vote, an amendment (H.Amdt. 432) that would have increased funding for CDF activities by $350 million to $2.047 billion.

Unlike the Senate committee bill, H.R. 2610 did not include a set-aside of CDBG funds to support a new round of funding for Integrated Planning Grant activities. Nor did the bill include funding for the Administration's NSI proposal or language that would have supported changes in the way CDBG funds are distributed, including the establishment of a minimum grant amount.

The House bill did include language supporting the Administration's budget request calling for the conversion of Section 108 loan guarantees to a fee-based structure. H.R. 2610 recommended a loan guarantee ceiling of $500 million. H.R. 2610 also recommended continued funding of Section 4 (Capacity Building for Community Development and Affordable Housing) activities at the $15 million appropriation level, which was $18 million less than appropriated in FY2013 and $20 million less than recommended by the Senate. The committee did not support the

Administration's request to transfer the program from its current account, the Self-Help Homeownership Opportunity Program account.

Consolidated Appropriations Act, FY2014, P.L. 113-76

On January 17, 2014, President Obama signed the Consolidated Appropriations Act for FY2014, P.L. 113-76, which includes $3.100 billion in funding for the Community Development Fund. Of the total amount appropriated for CDF activities $3.030 billion was appropriated for formula-based Community Development Block Grants (CDBG) to be allocated to CDBG entitlement communities, states, and insular areas. The act also appropriated $70 million in CDBG competitively awarded funds to Indian tribes. The $3.1 billion appropriated for CDF activities is $1.403 billion (82.7%) more than the $1.697 million recommended in H.R. 2610, as reported by the House Appropriations Committee on July 2, 2013; it is $195 million (6.2%) less than the $3.295 recommended by the Senate; and $43 million (1.4%) less than the $3.143 million requested by the Administration.

P.L. 113-76 did not include funding for the Administration's Neighborhood Stabilization Initiative and Regional Integration Planning Grants. Nor did the act include language supporting the Administration's proposal that would have established a minimum CDBG allocation. The act does continue funding of Section 4 (Capacity Building for Community Development and Affordable Housing) activities at $35 million, but does not support transferring the program from its current account, the Self-Help and Homeownership Opportunity account, to a new stand-alone account, as requested by the Administration.

Section 108 Loan Guarantees

Most significantly, P.L. 113-76 directs HUD to convert Section 108 loan guarantees to a fee-based, zero-subsidy program as requested by the Administration and recommended in the House committee bill, H.R. 2610. As noted in the explanatory statement accompanying H.R. 3547 (P.L. 113-76) HUD is directed to develop rules governing the imposition of a fee-based assessment to borrowers accessing the program, which would eliminate the need for an appropriated credit subsidy. In the interim, prior to the publication of a final rule implementing a fee-based, zero-subsidy Section 108 loan guarantee program, HUD is directed to use up to $3 million in budget authority appropriated under P.L. 113-76 and any available budget authority provided in prior years to support Section 108 loan guarantees. Upon publication of a final rule, any fees collected from borrowers are to be used to subsidize a total loan principal not to exceed $150 million in Section 108 loan guarantees.

FY2013 Appropriations

The Administration's FY2013 Budget Request

The Obama Administration's budget request for FY2013, released on February 13, 2012, included $3.143 billion for activities funded under the Department of Housing and Urban Development's Community Development Fund (CDF) account. The requested amount represented 8.9% of the $35.347 billion in total discretionary budget authority requested by the agency for FY2013.

The Administration's FY2013 budget proposal would have increased total funding for CDF account activities by 4.5% or $135 million. This increase in funding would have been achieved by reinstating funding for the Administration's regional planning initiative and by transferring funding for Section 4 capacity building activities from another HUD account. Specifically, the Administration requested $100 million in funding for its Sustainable Communities Initiative (SCI), which received no funding in FY2012, but had an appropriation of $99 million in FY2011. In addition, the Administration's budget request would have transferred funding for the Capacity Building for Community Development and Affordable Housing (Section 4) program, which was funded at $35 million in FY2012, from the Self-Help Housing Assistance account to the CDF account.

Table 3. CDBG and Related Appropriations: FY2012 and FY2013

(in millions of dollars)

Program	FY2012 Enacted P.L. 112-55	FY2013 Admin. Request	FY2013 House	FY2013 Senate Cmte.	FY2013 P.L. 113-6 Pre-Sequester	FY2013 P.L. 113-6 Post Sequester
CDF, Total	**3,008.1**	**3,143.1**	**3,404.0**	**3,210.0**	**3,300.0**	**3,135.1**
CDBG-formula[a]	*2,948.1*	*2,948.1*	*3,344.0*	*3,100.0*	3,240.2	*3,078.2*
Entitlement Communities	*2,058.8*	*2,058.8*	*2,335.9*	*2,165.1*	2,263.2	*2,149.8*
States	*882.3*	*882.3*	*1001.1*	*927.9*	970.0	*921.4*
CDBG Insular areas	*7.0*	*7.0*	*7.0*	*7.0*	*7.0*	*7.0*
CDBG Indian Tribes	60.0	60.0	60.0	60.0	59.8	56.9
Section 107 (technical assistance)	0.0	0.0	0.0	0.0	0.0	0.0
CDBG Subtotal	**3,008.1**	**3,008.1**	**3,404.0**	**3,100.0**	**3,300.0**	**3,135.1**
Rural Innovation Fund	0.0	0.0	0.0	0.0	0.0	0.0
University Community Fund	0.0	0.0	0.0	0.0	0.0	0.0
Capacity Building Sec. 4 Grants[b]	0.0[c]	35.0	—[d]	—[d]	0.0	0.0[e]
Sustainable Communities Initiative	0.0	100.0	0.0	50.0	0.0	0.0
Regional Integration Planning Grants	*0.0*	*46.0*	0.0	*50.0*[f]	0.0	*0.0*
Community Challenge Grants	*0.0*	*46.0*	0.0	*0.0*	0.0	*0.0*
HUD-DOT Integration Research	*0.0*	*8.0*[g]	0.0	*0.0*	0.0	*0.0*
Transfer to the Transformation Initiative	0.0[h]	0.0[i]	0.0	0.0	0.0	0.0
CDBG-related set-asides and earmarks	**0.0**	**135.0**	**0.0**	**50.0**	**0.0**	**0.0**
Disaster relief supplemental	**400.0**	**0.0**	**0.0**	**0.0**	**16,000.0**	**15,200.0**

Source: Prepared by CRS based on P.L. 112-55 and the Administration's FY2013 budget submission.

a. Limits the percentage of funds under the account that may be used to cover planning, management, and administrative expenses to no more than 20% of any grant awarded under this account.

b. Funds awarded to three national intermediaries: Local Initiative Support Corporation, Enterprise Foundation, and Habitat for Humanity with a least $5 million in such assistance allocated rural capacity building activities.

c. For FY2012, $40 million was appropriated under a separate Self-Help Housing Assistance Program (SHOP) account.

d. Senate and House bills recommended appropriating $35 million under a separate Self-Help and Assisted Homeownership Opportunity Program account.

e. For FY2013, $33.2 million appropriated under a separate Self-Help Housing Assistance Program (SHOP) account.

f. Senate committee bill recommended that at least $12.5 million (25%) be set aside for activities in communities with population least than 500,000.

g. Includes $3 million for the development of energy modeling tool and to provide technical support for energy efficiency and green building goals in HUD-assisted housing portfolio.

h. P.L. 112-55 appropriated $50 million for the Department's Transformation Initiative under a separate stand-alone account.

i. The Administration's budget requested that the Secretary be given the authority to transfer up to 0.5% or no more than $120 million from selected accounts department-wide to the agency's Transformation Initiative. For the CDF account the Secretary would be allowed to transfer up to $15.7 million (0.5%) of the proposal's total appropriation under the account to the Department's Transformation Initiative (TI). The Secretary would be granted the authority to use TI funds to carry out activities in four areas: research and evaluation; program demonstration; technical assistance; and information technology.

Community Development Block Grants—Formula Grants

Under the Administration's FY2013 budget proposal funding for the CDBG formula grants would have remained unchanged from the amounts appropriated for FY2012. For FY2013, the Administration requested $2.948.1 billion for the CDBG formula component of the CDF account, including

- $2.059 billion for CDBG entitlement communities;
- $882 million for CDBG state administered program; and
- $7 million for insular areas.

The Administration also requested $60 million for Indian tribes. These are approximately the same amounts that were appropriated for FY2012.

Sustainable Communities Initiatives (SCI)

The Administration's FY2013 budget recommended reinstating funding for SCI program activities. These programs did not receive funding in FY2012, but were funded at $99 million in FY2011. The SCI is a set of regional planning-oriented grants first proposed by the Obama Administration in its FY2010 budget and funded at $150 million. For FY2013 the Administration requested an appropriation of $100 million. Funds would have supported SCI's three components:

- *Regional Integrated Planning Grants*. $46 million would have been competitively awarded to regional organizations in up to 25 metropolitan areas to support efforts to develop effective models that would integrate the planning requirements of various disciplines critical to the development of sustainable communities. This would be done in collaboration with the Department of

Transportation (DOT), the Environmental Protection Agency (EPA), and other federal agencies. Grant awards would focus on metropolitan-wide housing, transportation, economic development, energy, and land use planning.

- *Community Challenge Grants*. $46 million would have been competitively awarded to up to 50 communities to reform existing building codes, land use, and zoning ordinances with the goal of promoting sustainable growth and discouraging inefficient land use patterns. These funds were to be awarded to individual communities to assist them in developing local complement to the larger regional integration planning grants.
- *Housing-Transportation Integration Research*. $8 million would have been set aside for a joint HUD, DOT, and EPA research initiative that sought to quantify and evaluate the benefits and trade-offs of various efforts. A portion of these funds would have been used to evaluate the long-term benefits of Regional Integrated Planning Grants and Community Challenge Grants. In addition, the Administration requested that $3 million be set aside to provide technical support for the development of:
    1. a residential energy modeling system allowing HUD to estimate costs and saving that may be achieved with energy-oriented retrofits of HUD public and assisted housing;
    2. common energy standards that would apply to new construction, substantial or moderate rehabilitation, and energy retrofits; and
    3. sources of utility and other private sources of funds that could be tapped to finance energy efficiency improvements.

Section 108 Loan Guarantees

The Administration's budget proposed doubling the program's loan commitment ceiling from $240 million in FY2012 to $500 million in FY2013. The Administration's budget justifications noted that, given the continued difficulties in the credit markets, the proposed increase in funding will help local governments finance large-scale job creation activities. In addition to an increase in the loan commitment ceiling, the Administration proposed revamping the program by charging a fee-based assessment to borrowers accessing the program, which would have eliminated the need for an appropriated credit subsidy.

Senate Appropriations Committee Bill (S. 2322)

On April 19, 2012, the Senate Appropriations Committee reported S. 2322, a bill recommending appropriations for the Departments of Transportation and Housing and Urban Development and Related Agencies for FY2013. The bill recommended $3.210 billion for activities funded under the CDF account, including $3.100 billion for CDBG formula grants awarded to states, entitlement communities, and insular areas. This was 5% more than the $2.948 billion appropriated in FY2012 for formula grants, excluding the $400 million in disaster related supplemental funding for FY2012.

The bill recommended restoring funding for SCI activities. As reported by the committee, the bill recommended an appropriation of $50 million for SCI activities. This was half the amount requested by the Administration. In addition, the bill would have required HUD to allocate $12.5 million of the amount appropriated to SCI in communities with populations of less than 500,000.

The bill also supported the Administration's budget request calling for the conversion of Section 108 loan guarantees to a fee-based program and increasing the loan guarantee commitment to $500 million for FY2013 from the $240 million approved for FY2012. The Senate committee bill recommended continued funding of Section 4 (Capacity Building for Community Development and Affordable Housing) activities at the $35 million appropriation level, but did not support the Administration's request to transfer the program from its current account, the Self-Help and Homeownership Opportunity account.

House Bill (H.R. 5972)

The House Appropriations Committee reported the Transportation and Housing and Urban Development and Related Agencies Appropriations bill on June 20, 2012. The bill, H.R. 5972, recommended $3.404 billion for activities funded under the CDF account, including $3.344 billion for CDBG formula grants awarded to states, entitlement communities, and insular areas. This was 13% more than the $2.948 billion appropriated in FY2012 for formula grants and 8% more than recommended in the Senate bill, S. 2322. Like its Senate counterpart, H.R. 5972 supported the Administration's $60 million funding request for Indian tribes.

Unlike the Senate committee bill, H.R. 5972 did not include a set-aside of CDBG funds to support a new round of funding for SCI activities. Instead, the bill recommended just over $2 million in the Management and Administration account for activities related to the closeout and evaluation of previously awarded SCI awards. The report accompanying the bill noted that the program was unauthorized and did not have the support of the committee of jurisdiction, the House Financial Services Committee.

The House bill did not support the Administration's budget request calling for the conversion of Section 108 loan guarantees to a fee-based structure. H.R. 5972 recommended $6 million in loan subsidies to support a loan guarantee ceiling of $244 million. Consistent with the provisions included in the Senate bill, H.R. 5972 also recommended continued funding of Section 4 (Capacity Building for Community Development and Affordable Housing) activities at the $35 million appropriation level. It did not support the Administration's request to transfer the program from its current account, the Self-Help Homeownership Opportunity Program account.

The full House began floor consideration of the bill on June 27, 2012. During floor debate on the bill several amendments were introduced calling for funding reductions or elimination of the CDBG and Section 108 loan guarantee programs. None of them were approved.

- H.Amdt. 1333 proposed reducing funds for salaries and expenses in the Community Planning and Development account by $3.5 million and was defeated by a vote of 178-240;
- H.Amdt. 1341 proposed reducing the House committee recommendation for the CDF by $396 million to its FY2012 funding level and was defeated by a vote of 157-267;
- H.Amdt. 1342 recommended eliminating funding for the CDF and was defeated by a vote of 80-342; and

- H.Amdt. 1344 recommended eliminating funding for the Section 108 loan guarantee program and was defeated by a vote of 123-300.

A fifth amendment (H.Amdt. 1348) that would have allowed a higher percentage of Neighborhood Stabilization Program funds to be used for demolition activities was challenged on a point of order. The point of order was sustained by the chair, who ruled that the amendment sought to change existing law and thus constituted legislation in an appropriation bill.

FY2013 Appropriations, P.L. 113-6

The 112th Congress began, but did not complete, consideration of appropriation measures that would have provided full year funding for the Departments of Transportation and Housing and Urban Development and Related Agencies for FY2013, before adjourning. On September 28, 2012, the President signed into law, as P.L. 112-175, a continuing resolution (H.J.Res. 117) funding government agencies—including HUD—at 0.612% above their FY2012 levels, through March 27, 2013.

The 113th Congress took up the task of completing the FY2013 appropriations process. On March 6, 2013, the House approved H.R. 933, a bill providing full-year, government-wide appropriations for FY2013. The bill proposed continuing funding for the CDF account, including CDBG formula grants, at the FY2012 levels, reduced by an across-the-board rescission of .098% and proposed maintaining the funding reductions imposed by the sequester.

On March 20, 2013, the Senate passed a substitute amendment to the House-version of H.R. 933. The bill recommended FY2013 funding levels for most programs and activities, including CDBG, at FY2012 levels minus a 0.2% across-the-board rescission. The Senate passed version of the bill, like its House counterpart, maintained the funding reductions imposed by the March 1, 2013, sequester. On March 21, 2013, the House agreed to the Senate version of H.R. 933. On March 26, 2013, the President signed into law P.L. 113-6, the Consolidated and Further Continuing Appropriations Act, 2013.

P.L. 113-6 appropriated $3.1 billion for CDF activities, including $3.078 billion for CDBG formula grants to states and entitlement communities and $57 million for Indian tribes. The $3.078 billion allocated by formula grants to entitlement communities and states represented a 4.4% increase above the $2.948 billion allocated to formula grants in FY2012.

CDBG Disaster Supplemental Assistance, P.L. 113-2

During the first weeks of the 113th Congress, the House and Senate considered and passed H.R. 152, a FY2013 disaster supplemental appropriations bill to support disaster relief and recovery activities for victims of Hurricane Sandy and other disasters occurring in 2011, 2012, and 2013. The measure, which was signed into law as P.L. 113-2 by the President on January 29, 2013, included $16 billion for HUD, all allocated to the CDF, and subject to sequestration under the Budget Control Act, as amended.

Of the $16 billion appropriated for CDBG activities, P.L. 113-2 transferred $10 million to the Office of the Inspector General for oversight and auditing activities. Consistent with the Administration's request, P.L. 113-2 included a $10 million set aside for salaries and expenses to be used to fund technical assistance and cover the costs incurred by HUD's Office of Community

Planning and Development (OCPD) in administering CDBG disaster funds. The act allows HUD to distribute CDBG disaster funds appropriated under the act to the most impacted and distressed areas affected by Hurricane Sandy and other eligible disaster events occurring during calendar years 2011, 2012, and 2013. P.L. 113-2 included several terms and conditions that vary from the rules governing the regular CDBG program. These can be grouped into three broad areas governing the submission and content of disaster plans, allocation and use of funds, and waiver authority. P.L. 113-2:

- directed HUD to promulgate regulations governing the distribution and use of funds within 45 days after passage of this act, including establishing minimum allocations for CDBG grantees;
- required states and local government grantees to submit, and for HUD to approve, disaster plans before CDBG disaster funds may be obligated;
- required that a grantee's disaster plans articulate how proposed activities will support long-term recovery efforts;
- required HUD to certify that state and local government grantee disaster plans include adequate financial controls and procurement processes that would prevent duplication of benefits; prevent waste, fraud, and abuse; and encourage timely expenditure of funds; and
- directed HUD to allocate one-third of CDBG disaster appropriations provided in the bill to states and local government grantees within 60 days after passage of the bill.

P.L. 113-2 also established conditions and terms for the use of funds, including

- allowing grantees to use up to 5% of their CDBG disaster grant allocation for administrative expenses;
- prohibiting grantees from contracting out the responsibility for administering the CDBG disaster programs;
- requiring grantees to include performance requirements and penalties when eligible activities are undertaken through the use of contractors or procurement services;
- prohibiting disaster funds from being used for activities that are reimbursable by, or made available by, FEMA or the Army Corps of Engineers;
- requiring grantees to maintain a publicly accessible website identifying how all grant funds are used, including information on contracting and procurement processes; and
- holding harmless a state or community's regular CDBG allocation by ensuring that the amount of such funds awarded to grantees would not be affected by CDBG disaster-assistance allocations.

Finally, P.L. 113-2 granted HUD broad authority to waive or establish alternative program requirements, except for provisions governing fair labor standards, fair housing, civil rights, and environmental review. However, P.L. 113-2 included two exceptions related to environmental review requirements. Specifically, it allowed CDBG disaster fund grantees who use their funding to meet certain FEMA matching requirements to adopt, without public review, environmental reviews performed by other federal agencies. In cases where a grantee has already performed an environmental review or the activity or project is excluded from an environmental review, P.L. 113-2 explicitly allowed for the expedited release of funds. The law also allowed HUD to reduce, from 70% to 50%, the percentage of funds that must be targeted to activities benefiting low and moderate income (LMI) persons, and allows HUD to reduce the LMI-targeting requirement below 50% only if the grantee can demonstrate a compelling need.

Sequestration Impact on FY2013 Appropriations

The Budget Control Act of 2011 (BCA, P.L. 112-25) established discretionary spending limits for FY2012-FY2021. Signed into law on August 2, 2011, the BCA required a Joint Select Committee on Deficit Reduction to develop a federal deficit reduction plan for enactment by January 15, 2012. Congress and the President failed to reach agreements on a deficit reduction plan by that date, which triggered automatic spending reductions consisting of a combination of budget sequestration and lower discretionary spending caps. Under the sequestration process for FY2013 mandated by the BCA, the Office of Management and Budget (OMB) was required to implement across-the-board spending cuts to achieve budget reductions from both defense and nondefense funding.

On January 2, 2013, the President signed the American Taxpayer Relief Act, P.L. 112-240, (ATRA), which averted scheduled income tax rate increases and postponed spending reductions required by the sequestration process. The ATRA made a number of changes to the BCA, including changing the date the FY2013 sequester was to be implemented to March 1, 2013. On March 1, 2013, President Obama ordered sequestration as mandated by the Budget Control Act of 2011 (P.L. 112-25), as amended. According to the Office of Management and Budget, sequestration has resulted in an $85 billion reduction in FY2013 discretionary spending, including a 5% ($965 million) reduction in funding for CDF activities.[7] The $965 million identified in the OMB document includes $800 million reduction in the $16 billion for CDBG disaster relief and $165 million reduction in the $3.308 billion in CDF FY2013 regular appropriations.

Impact and Implications of Reduced Funding

The FY2013 appropriations for the formula-based components of the CDBG program (entitlement communities and states, and insular areas) totaled $3.078 billion, which was approximately 6.8% ($225 million) less than the $3.303 billion appropriated for FY2011.[8] For FY2012, the CDBG allocations awarded to entitlement communities and states totaled $2.948 billion. This represented 10.7% ($355 million) less than the amount allocated in FY2011. The reductions in appropriations for formula grant activities from FY2011 to FY2013 resulted in the average grant amount for entitlement communities declining from $2 million in FY2011 to $1.8

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[7] Executive Office of the President of the United States, Office of Management and Budget, *Report on Sequestration to the Joint Committee Sequestration for Fiscal Year 2013*, Washington, DC, March 1, 2013, p. 31, http://www.whitehouse.gov/omb/legislative_reports. The $965 million included in the OMB report includes ($165 million reduction in regular appropriations and $800 million in FY2013 CDBG disaster supplemental funding.

[8] The FY2011 amount reflects an across-the-board rescission of 0.2% and a 1% transfer of funds to the Department's Transformation Initiative. See §1119 and §2259 of P.L. 112-10.

million in FY2013. This was a 10.1% reduction in the average grant amount awarded to entitlement communities (see **Table 4**).

Although the recent reductions in CDBG funding represented a decline in resources available to support local community and economic development activities, they were less than the 45% reduction proposed in the FY2014 Departments of Transportation and Housing and Urban Development Appropriations Act, H.R. 2610. According to the U.S. Conference of Mayors and other organizations representing state and local governments, the proposed reduction in funding included in H.R. 2610 would have significantly impacted the long-term community and economic development plans of the states and local governments, forcing them to postpone or terminate activities that support private sector economic development and job creation efforts, public facilities, and public services.[9] The proposed funding reduction included in H.R. 2610 also would have undercut the resources of non-profit organizations serving as CDBG sub-grantees according to the CDBG Coalition.[10] These entities are involved in managing a range of CDBG-funded public services, facilities, and activities, including homeless shelters, public safety activities, and job counseling.

Supporters of the CDBG program contend that the reduction in funding disproportionately affects low and moderate income households given the statutory requirement that communities allocated at least 70% of the program's funds to activities principally benefitting low and moderate income persons.[11] The FY2012 appropriations for the formula component of the CDBG program were the lowest amount appropriated in more than a decade. The reduction in funding for entitlement communities reportedly resulted in entitlement communities delaying some projects and reducing support for others, including activities undertaken by community-based organizations acting as sub-grantees.

Table 4. Average CDBG Allocation and Percentage Change: FY2011 to FY2013

(in millions of dollars)

	Number of eligible entities FY2011	FY2011 average allocation	Number of eligible entities FY2012	FY2012 average allocation	Percentage change from FY2011 to FY2012	Number of eligible entities FY2013	FY2013 average allocation	Percentage change from FY2011 to FY2013
Entitlement communities	1,168	$2.0	1,181	$1.7	-15.0	1,183	$1.8	-10.0
States	51	19.4	51	17.3	-10.8	51	18.1	-6.7
Insular areas	4	1.7	4	1.7	0.0	4	1.7	0.0

[9] See Housing and Development.Com, "Mayors Lobbying Senate to Restore CDBG Funding," *Community Development Digest*, February 25, 2010, p. 1; and U.S. Conference of Mayors, "Community Development Block Grants Work for America," February 2011, http://www.usmayors.org/cdbg/. National League of Cities, "NLC ACTION ALERT: Community Development Block Grant Recess Strategy," press release, February 2011.

[10] Letter from CDBG Coalition, U.S. Conference of Mayors, National Association of Counties, National Association of Development Organization et al. to The Honorable Hal Rogers, Chairman, Committee on Appropriations, and Nita Lowey, Ranking Minority Member, U.S. House of Representatives, June 21, 2013, http://www.nado.org/wp-content/uploads/2013/06/J-Letters-to-RogersLowey-et-al-6-18-13une-2-5.pdf.

[11] The program's authorizing statue and regulations define low and moderate income persons as those persons whose income does not exceed 80% of the median income of the jurisdiction.

Source: HUD allocations data at http://www.hud.gov/offices/cpd/about/budget/budget10/index.cfm and CRS, based on information included in Table 3.

Legislative Options

The decline in average funding is a result of both lower appropriations and an increase in the number of communities qualifying for entitlement status. The average state allocation declined by 25.4%, from $19.42 million in FY2011 to $18.1 million for FY2013, while the number of entitlement communities increased from 1,168 to 1,183 during the same period. Given the current desire to address both the national debt and deficit spending, Congress is unlikely to provide funds that would restore CDBG funding to significantly higher levels. Short of appropriating additional funds that would mitigate both the impact of inflation and the increasing number of eligible communities Congress may consider a number of options intended to address the decline in average CDBG formula allocations. These may include the following two options.

Increase Population Threshold for Eligibility

Establishing a population threshold higher than the current 50,000 persons for entitlement city status would eliminate direct funding for hundreds of cities. The cities that fail to meet the new higher population thresholds would have their populations and formula factors included in their urban county's calculations. For instance, raising the population threshold for CDBG entitlement city eligibility to 100,000 persons or more would eliminate hundreds of communities from the rolls of entitlement communities and would result in many of these communities being subsumed as partners in a qualifying county's CDBG program.

Establish a Minimum Grant Allocation

The Administration's FY2014 budget request included a proposal that would eliminate the grandfathering of communities that no longer meet the minimum population threshold for entitlement status and would have eliminated direct funding to entitlement cities whose annual allocation fail to meet a predetermined minimum amount. The HUD proposal would have denied direct CDBG funding to communities whose minimum allocation is less than 0.0125% of the amount allocated to all entitlement communities. HUD has argued that grants below a certain amount are too small to be effective. According to the Administration, 239 communities would have fallen below the threshold based on the program's proposed funding level for FY2014, and an additional 57 grandfathered communities would have been eliminated because they no longer met the program's population threshold for entitlement status. The proposal would have transitioned communities to nonentitlement status over several years ending in 2018. Although these cities would not receive direct funding they could become a part of their respective urban county's CDBG program. Such an arrangement could reduce administrative costs and promote intra-county cooperation. Alternatively, these communities could compete for funds from the state's allocation for nonentitlement communities.

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