

IMPROVING THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

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Flexible Federal Funding: Examining the Community Development Block Grant Program and Its Impact on Addressing Local Challenges

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Good morning, Chair Cleaver, Ranking Member Hill, and members of the subcommittee. Thank you for the opportunity to address you today.

My name is Salim Furth, and I am a senior research fellow at the Mercatus Center at George Mason University, where I am codirector of the Urbanity Project. My remarks today will focus on

1. the need to reform the Community Development Block Grant (CDBG) program's funding formula,
2. two questionable categories of CDBG funding use that Congress should limit, and
3. the inequitable treatment of non-entitlement communities.

THE FORMULAS

As the congressional declaration of purpose states in many different ways, the CDBG program is intended principally for the benefit of low- and moderate-income people and the neighborhoods where they live.¹ But the most impactful parts of the statute that created the CDBG program are the formulas, and the formulas fail to fulfill the stated purpose.

As you know, there are two formulas for entitlement communities and two for states. The formulas reflect a very specific set of 1970s urban concerns. This was the era of "Ford to City: Drop Dead"² and "Will the last person leaving SEATTLE - Turn out the lights."³ At the time, it seemed like age and decline were synonymous. Thus, 70 percent of entitlement Formula B depends on having old housing and a slow rate of growth.⁴ But today, New York City, Seattle, and many other cities have strong tax bases and economies that are the envy of, say, El Paso.

1. 42 U.S.C. § 5301 (2021).

2. Frank van Riper, "Ford to City: Drop Dead," *New York Daily News*, October 30, 1975.

3. Erik Lacitis, "Iconic 'Will the Last Person' Seattle Billboard Bubbles Up Again," *Seattle Times*, February 2, 2009.

4. 42 U.S.C. § 5306(d) (2021).

The inequities are even more egregious in the case of affluent, prewar suburbs. In Newton, Massachusetts, 50 percent of homes were built before 1940. The median household income is \$150,000 and the city’s tax base is extremely strong. Newton receives a CDBG of \$386 per resident in poverty.⁵ McAllen, Texas, by contrast is much newer and much less affluent. It receives half as much CDBG funding per capita, and only \$54 per resident in poverty.

TABLE 1. CDBG FORMULAS DO NOT MATCH CDBG PRIORITIES

	Old Homes (Percentage)	Poverty (Percentage)	CDBG per Person	CDBG per Person in Poverty
McAllen, TX	1.1	20.7	\$11	\$54
Brownsville, TX	2.4	25.8	\$15	\$57
Chelsea, MA*	55.7	18.1	\$21	\$114
Everett, MA*	62.9	12.6	\$18	\$142
Brookline, MA	47.6	12.3	\$23	\$188
Newton, MA	50.2	5.6	\$22	\$386
Martha’s Vineyard, MA*	16.8	7.6	\$133	\$1,753

* Indicates a non-entitlement community.

Note: Martha’s Vineyard consists of six towns, five of which received a CDBG.

Sources: Census Bureau, “Ratio of Income to Poverty Level in the Past 12 Months” (dataset), accessed June 13, 2021, <https://data.census.gov/cedsci/table?q=B17&d=ACS%201-Year%20Estimates%20Detailed%20Tables&tid=ACSDT1Y2019.B17002>; Census Bureau, “Year Structure Built” (dataset), accessed June 13, 2021, <https://data.census.gov/cedsci/table?q=B25034&tid=ACSDT1Y2019.B25034>; US Department of Housing and Urban Development, “Community Planning and Development Program Formula Allocations for FY 2019,” accessed June 13, 2021, https://www.hud.gov/program_offices/comm_planning/budget/fy19/; Massachusetts Department of Housing and Community Development, *FY 2019 Massachusetts Community Development Block Grant Program Community Development Block Grant Awards (CDBG)*, 2019.

There is also an arbitrary distinction between entitlement and non-entitlement communities that has not adjusted along with changes in the shares of low- and moderate-income populations in each of the two kinds of areas. As a result, inequities arise even between similar areas. Chelsea and Everett, Massachusetts, are working-class suburbs with even older housing than Newton. But their populations are less than 50,000, so they receive funding through the state. For whatever reason, they receive a little bit less per capita than Newton and, thus, far less per person in poverty. But Newton, in turn, can envy the towns of Martha’s Vineyard—where “summer” is a verb—which somehow receive \$1,753 per resident in poverty.⁶

These examples are typical of the winners and losers under the CDBG program.⁷ The relationship between the CDBG program’s stated goals and its true priorities—as reflected in its budget—is tenuous.⁸

5. US Department of Housing and Urban Development, “Community Planning and Development Program Formula Allocations for FY 2019,” accessed June 13, 2021, https://www.hud.gov/program_offices/comm_planning/budget/fy19/.

6. Five of the six towns of Martha’s Vineyard apply for CDBG funds in two groups, both of which received large awards in fiscal year 2018 and fiscal year 2019, the only years for which data are readily available.

7. The exception is Martha’s Vineyard, which is frankly shocking.

8. Many researchers over the years have pointed out the formulas’ failings. Todd Richardson, *CDBG Formula Targeting to Community Development Need* (Washington, DC: US Department of Housing and Urban Development, 2005); Paul L. Posner,

POLITICS VERSUS POLICY

The persistence of this gap between rhetoric and reality is an example of behavioral public choice. If Congress tinkers with the formulas, some mayors will lose funding, and their anger will be louder than the joy of the mayors who gain funding.⁹

Previous Congresses have not been willing to incur net political losses for the sake of policy gains.

One way out of this trap is to write new formulas that apply only to future CDBG funding in excess of the 2021 budget authority figure (\$3.45 billion).¹⁰ Then complete the transition by setting a distant date at which the old formulas will expire, beyond the political lives of most current mayors. That said, it would show greater courage if Congress were simply to change the formulas now to match the program's stated goals.

QUESTIONABLE USES

A few allowed uses of CDBG funding are contrary to the spirit of the law.

Congress should not allow grantees to use CDBG to subsidize private businesses. A large scholarly literature on so-called economic development subsidies finds that those subsidies are ineffective at creating jobs. Instead, they boost recipient companies at the expense of everyone else.¹¹

In my own research, looking at 17 states, I find that 4 states dedicate at least a quarter of their State CDBG funding to private subsidies.¹² One Maine town used 79 percent of its CDBG funding from 2000 to 2019 in support of a single local business. Targeted subsidies are an invitation to favoritism and petty corruption and are outside the scope of what governments ought to do.

Another questionable use is when affluent communities use CDBG to eliminate cheap housing. Nobody calls it that, of course, but it is common to see exclusive locales spend their CDBG on the rehabilitation of single-family homes. The recipients must have low incomes to qualify, but they implicitly have substantial wealth by dint of owning a home in that community. The well-funded Martha's Vineyard

"Community Development Block Grant Formula: Targeting Assistance to High-Need Communities Could Be Enhanced" (report no. GAO-05-622T, Government Accountability Office, Washington, DC, 2005); Michael J. Rich, "Community Development Block Grants at 40: Time for a Makeover," *Housing Policy Debate* 24, no. 1 (2014): 46-90; Robert A. Collinson, "Assessing the Allocation of CDBG to Community Development Need," *Housing Policy Debate* 24, no. 1 (2014): 91-118; Brett Theodos, Christina Plerhoples Stacy, and Helen Ho, *Taking Stock of the Community Development Block Grant* (Washington, DC: Urban Institute, April 2017).

9. This is a textbook case of loss aversion. Amos Tversky and Daniel Kahneman, "Loss Aversion in Riskless Choice: A Reference-Dependent Model," *Quarterly Journal of Economics* 106, no. 4 (1991): 1039-61.

10. "CPD Appropriations Budget/Allocations," US Department of Housing and Urban Development, accessed June 13, 2021, https://www.hud.gov/program_offices/comm_planning/budget.

11. Matthew D. Mitchell et al., *The Economics of a Targeted Economic Development Subsidy* (Arlington, VA: Mercatus Center at George Mason University, 2019); Mark Partridge et al., "The Effects of State and Local Economic Incentives on Business Start-Ups in the United States: County-Level Evidence," *Economic Development Quarterly* 34, no. 2 (2020): 183; Stephan J. Goetz et al., "Sharing the Gains of Local Economic Growth: Race-to-the-Top versus Race-to-the-Bottom Economic Development," *Environment and Planning C: Government and Policy* 29, no. 3 (2011): 428; Bruce D. McDonald III, J. W. Decker, and Brad A. M. Johnson, "You Don't Always Get What You Want: The Effect of Financial Incentives on State Fiscal Health," *Public Administration Review* 81, no. 3 (2021): 365-74; Terry F. Buss, "The Case against Targeted Industry Strategies," *Economic Development Quarterly* 13, no. 4 (1999): 339.

12. The four are Arkansas, Maine, Mississippi, and New Hampshire. For this project, I was only examining states with large rural populations. Salim Furth, "Setting Community Development Priorities in Maine" (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, January 2021).

program mentioned earlier has long used this tactic.¹³ It is completely innocent at the town level (e.g., fixing up “Widow Smith’s” old house—which, frankly, was an eyesore—so she does not have to move) but the practice has the effect of raising the prices of what would have been the cheapest homes.

To curb this practice, I recommend barring rehabs, except for lead abatement, for units worth more than the national average home value.

THE INEQUITY BETWEEN STATES AND ENTITLEMENT COMMUNITIES

In many states, non-entitlement communities cannot set their own CDBG priorities.¹⁴ The states allocate their annual grant among various categories and entertain grant requests within those categories. Entitlement communities, by contrast, have predictable funding and tremendous flexibility.

There are good arguments to be made for either system. But using the two systems in parallel seems unfair.

Small cities and rural counties are treated with a paternalism that does not apply to larger ones. At a minimum, states should make so-called small city grants predictable so that these communities can approach the CDBG program as a budget rather than as a lottery.

CONCLUSION

I doubt that anyone in this room, if they had a free hand budgeting \$3.5 billion from scratch, would come up with the CDBG program. But this is a program Congress has inherited, and it is not going away. Congress should make the adjustments necessary to ensure that CDBG funds are distributed and spent equitably and in accordance with the program’s intent.

13. Barry Stringfellow, “Island Towns Score Community Development Block Grants,” *Martha’s Vineyard Times*, July 26, 2017.

14. In a sample of six states, I find that four set statewide categorical budgets, and two claim to give grantees flexibility, although they can always tilt their grant evaluations toward favored categories.