PERSISTENT POVERTY IN AMERICA: ADDRESSING CHRONIC DISINVESTMENT IN COLONIAS, THE SOUTHERN BLACK BELT, AND THE U.S. TERRITORIES

HYBRID HEARING

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PERSISTENT POVERTY IN AMERICA: ADDRESSING CHRONIC DISINVESTMENT IN COLONIAS, THE SOUTHERN BLACK BELT, AND THE U.S. TERRITORIES

Tuesday, November 15, 2022

U.S. House of Representatives,
Subcommittee on Housing,
Community Development,
and Insurance,
Committee on Financial Services,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:06 a.m., in room 2128, Rayburn House Office Building, Hon. Emanuel Cleaver [chairman of the subcommittee] presiding.

Members present: Representatives Cleaver, Velazquez, Beatty, Vargas, Torres; Hill, Posey, Huizenga, Rose, and Taylor.

Ex officio present: Representative Waters.

Chairman Cleaver. The Subcommittee on Housing and Community Development will come to order.

Without objection, the Chair is authorized to declare a recess of the subcommittee at any time. Also, without objection, members of the full Financial Services Committee who are not members of this subcommittee are authorized to participate in today's hearing.

Today's hearing is entitled, "Persistent Poverty in America: Addressing Chronic Disinvestment in Colonias, the Southern Black Belt, and the U.S. Territories."

I now recognize myself for 4 minutes for an opening statement.

Persistent poverty is a major problem in this country. And in counties around the country, they have a rate of poverty that has exceeded 20 percent for 30 years or more in a row of the country's 377 persistent-poverty counties. The vast majority are in rural and non-metro areas.

The millions of Americans grappling with persistent poverty are diverse. They are located in Appalachian communities in States like Tennessee and Kentucky; in Native American communities in States like South Dakota; in Latino communities in States like Texas; in African-American communities in States like South Carolina and Alabama; and in the U.S. Territories.

These Americans—Americans—are represented in Congress by Democrats and Republicans, and by Democratic and Republican members of this committee. Addressing persistent poverty is in the interest of all Americans, regardless of geography, race, or political preference. And addressing persistent poverty is a significant challenge, despite flows in the economy. In good economic times and in bad, persistent-poverty areas of the country are struggling, resistant to time and effort.

Democrats continue to advocate for rural America and the Territories. Under the leadership of Chairwoman Waters, the Financial Services Committee passed the Build Back Better Act, which would have made a historic level of investments in rural and persistent-poverty areas. The housing title of the bill would have specifically provided over $100 billion in fair and affordable housing investments throughout the United States. This would have included $2.1 billion for housing and homeownership preservation to increase the supply of housing and provide rental assistance in rural communities through the USDA, as well as $500 million for infrastructure improvements and manufactured housing communities, and $700 million for housing and community development investment in colonias, including those located outside of the 150-mile area from the United States-Mexican border, through the Community Development Block Grant (CDBG) program. Territories would have received a significant portion of these investments through required minimum allocations.

I hope that this hearing will dive deeper into the financial solutions and the Federal solutions on this table and the full range of tools at our disposal.

The Chair now recognizes the ranking member of the subcommittee, Mr. Hill, for 4 minutes.

Mr. HILL. I want to thank the chairman. And I appreciate today's topic of the hearing, persistent poverty in America.

This topic is certainly an important one, and it is a troubling one. According to the Census Bureau, the national poverty rate was 12.8 percent in 2021, with about 37 million people in our nation in poverty, up more than 3 million from the prior year.

It might be hard for some to fathom that in a country so blessed with abundance, there are still so many places where poverty not only exists but where it has taken root and shows no sign of relenting. These places are remnants of a more forgotten time in America, before the economic boom that for many dominated the latter half of the 20th Century and carries on today.

And despite the specificity of the title of today's hearing, these deeply-impoverished areas can, sadly, be found in all corners of our great nation: from the southeast counties of the Blue Grass State of Kentucky to the Native American Reservations of central South Dakota, western Alaska on the Bering seacoast, and in my home State of Arkansas.

These places might not all look alike, but they do share at least one major characteristic: They are, for many purposes, all rural in nature, and for many, extremely so. So in a lot of ways what we are really talking about here today is the impact of poverty in rural America. And more of the pointed question we need to be asking is why does poverty seem to hit those living in the country with such a tremendous impact over those in impoverished urban areas, like the south Bronx or Detroit? I am not sure we will ever be able to answer that important question here today, but let me make a couple of observations.

First, the high levels of poverty we see in these rural areas of our nation, despite 60 years of focused Federal efforts to eradicate them, continue. The Department of Agriculture's Rural Housing Service was created in 1949 to build or improve housing and essential community facilities in rural areas. That was followed in 1965 by HUD's efforts under urban renewal, and by Sergeant Shriver and the Commerce Department's Economic Development Administration (EDA), all to try to help economically-distressed areas and cities.

In fact, if you go back to the launch of the Federal Government's 1960's war on poverty, President Johnson boldly proclaimed: "We have declared an unconditional war on poverty; our objective is total victory; I believe that 30 years from now, Americans will look back on these 1960s as the time of a great American breakthrough towards victory of prosperity over poverty." Well, $22 trillion later, I am reminded of President Reagan's quip from 1988: "President Johnson declared war on poverty, and poverty won."

These were lofty goals by President Johnson, but after 60 years and hundreds of billions—as I say, $22 trillion in inflation adjusted spending, Big Government approaches to battling poverty have not worked for many rural households.

It seems to me it is a great time to rethink this strategy as we try to tackle it. We can no longer define success by annual increases in funding levels for programs that fail to elevate families out of poverty. Instead, we should focus on what is likely to be the most effective way to combat it: greater development and deployment of economic opportunity, including broadband; better available education in these rural areas; private lending and investment; and job creation.

I have seen that success in Arkansas, Mr. Chairman. One of the poorest counties in the First District of Arkansas, in the Mississippi Delta is now the world's largest producer of steel. And hundreds of people are employed, and that economic prosperity and that corridor from Memphis to the Missouri border is growing because of those kinds of investments.

I thank my chairman for this hearing. I look forward to the discussion, and I yield back to him.

Chairman CLEAVER. The gentleman yields back.

The Chair now recognizes the Chair of the full Committee on Financial Services, the Honorable Maxine Waters of California.

Chairwoman WATERS. Thank you very much, Mr. Cleaver, for this hearing.

Over 1.7 million people in the U.S. live in rural counties experiencing persistent poverty. These rural communities face chronic disinvestment and population loss as housing, lending, and community development needs have gone ignored. We cannot continue to turn a blind eye, especially as inflation, driven in large part by rising housing costs nationwide, has exacerbated rural job loss, further entrenching persistent poverty in many communities.

One year ago this month, the House passed the Build Back Better Act, which included historic investments for housing in rural America, but not one single Republican Member supported it. I hope we can build bipartisan support for efforts to invest in affordable housing, especially in rural areas, and to effectively reduce inflation. And I hope, as we go down this path for the future, that we can get some support from the Republicans.

Thank you. I yield back.

Chairman CLEAVER. The chairwoman yields back.

We will now turn to our witnesses: Yarimar Bonilla, the director of the Center for Puerto Rican Studies at Hunter College; Kiyadh Burt, the vice president of policy and advocacy and interim director at the Hope Policy Institute; Amber Arriaga-Salinas, the assistant executive director of Proyecto Azteca; Lance George, the director of research and information at the Housing Assistance Council; and Chris Potterpin, the president of the Council for Affordable and Rural Housing.

Our witnesses are reminded that their oral testimony will be limited to 5 minutes. You should be able to see a timer that will indicate how much time you have left. I would ask that you be mindful of the timer so that we can be respectful of the other witnesses' and the committee members' time.

And without objection, your written statements will be made a part of the record.

Ms. Bonilla, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF YARIMAR BONILLA, DIRECTOR, CENTER FOR PUERTO RICAN STUDIES AT HUNTER COLLEGE

Ms. BONILLA. Thank you.

Good morning. My name is Yarimar Bonilla, and I am the director of the Center for Puerto Rican Studies at Hunter College, the largest research institute and archive devoted to the Puerto Rican experience. I am grateful for the invitation to testify today on the question of persistent poverty and chronic disinvestment in the U.S. Territories. Alhough, given the time limit and the data challenges, I will focus narrowly on Puerto Rico.

When I gathered with my team to present this testimony, the first question we asked ourselves was, is persistent poverty really the right term for thinking about Puerto Rico's challenges?

The U.S. Government has set 20 percent for 30 years as the trigger of an alarm, but the fact is that Puerto Rico's poverty rate has been twice that for over half a century. At 40.5 percent, Puerto Rico has the second-highest poverty rate in the U.S., second only to American Samoa, and the absolute lowest median income of any U.S. jurisdiction.

A full quarter of the Puerto Rican population subsists on just $10,000 a year. Some assume that these depressed incomes are tied to a lower cost of living, but the contrary is true. Rent, mortgage, and utility burdens are all higher in Puerto Rico than the national average.

The U.S. Territories as a whole share these concerning metrics, leading us to ask whether this is really a question of persistent poverty, or rather, of the systemic poverty of empire.

Sadly, those most impacted by poverty and inequality are Puerto Rico's children. A whopping 55 percent of Puerto Rican children are living in poverty, 60 percent in rural areas. It has been shown that the best way to attend [inaudible] is to ensure access to public infrastructure and services like education that facilitate upward mobility. However, in Puerto Rico, acute poverty rates have been met by a systemic disinvestment in public infrastructure due to austerity measures, leading to the closing of schools, the defunding of the university system, and the privatization of essential infrastructure, such as roads, tolls, and energy distribution.

Since the privatization of the grid in 2021, outages have become commonplace, even as utility costs rise. This has impacted education, healthcare, communications, sales, and even the preparation of this testimony. Just yesterday, one of our researchers was among the hundreds of thousands without electricity due to yet another mass power outage.

The toughest part of all of this is that those who fail to provide us with the most basic of services, services which arguably should be guaranteed human rights, seem to operate with complete impunity. Although many wring their hands and accept this as the unfortunate fate of life in the colonies, we remind the Members of Congress that the U.S. Constitution grants them the singular power to change the lives of millions of citizens and nationals who reside in the Territories.

The U.S. Supreme Court has established that Congress has the power and authority to treat the Territories differently than the States. This has historically been interpreted as a congressional right to treat the Territories worse, by leaving them out of critical Federal programs while failing to address their systemically-depressed incomes. However, Congress could just as easily treat the Territories better, by attending to the demographic particularities and historic legacies of systemic dispossession.

If the U.S. Government recognizes that a persistent poverty rate of over 20 percent for 3 decades warrants Federal action, we request that the committee ponder what is necessary to attend to communities that have had twice that rate for multiple generations.

To begin, Congress must exercise its oversight role to critically examine the impact of the Fiscal Board it created. What has been the tangible impact and long-term consequences of the focus on austerity and privatization? Further, since the board conceded that a large portion of Puerto Rico's debt was unconstitutional, why is it forcing Puerto Ricans to pay it and refusing to have it audited? In addition, HUD and FEMA must be held accountable and work in better partnership with local watchdogs.

Discrimination and excessive scrutiny of Puerto Rican agencies and applicants in the aftermath of Hurricane Maria had been widely documented and [inaudible] yet we already hear the same issues are unfolding in the wake of Hurricane Fiona.

Lastly, Congress must address the exclusion of Puerto Rico and other U.S. Territories from Federal programs like SSI and other Federal benefits geared at precisely the most-disadvantaged sectors of the population. Otherwise, it should speak clearly on what moral grounds residents of the Territories are excluded from these entitlements. Again, Congress can treat Territories differently. It should use that power.

Thank you for your time.

[The prepared statement of Ms. Bonilla can be found on page 37 of the appendix.]

Chairman CLEAVER. Thank you.

Mr. Burt, you are now recognized for 5 minutes.

STATEMENT OF KIYADH BURT, VICE PRESIDENT OF POLICY AND ADVOCACY AND INTERIM DIRECTOR, HOPE POLICY INSTITUTE

Mr. BURT. Thank you.

Good morning, and thank you to the committee for having me here today.

My name is Kiyadh Burt, and I am the vice president of policy and advocacy and the interim director of the Hope Policy Institute (HOPE).

Since 1994, HOPE has worked to increase financial inclusion among the most-vulnerable populations in the Deep South: the Deep South States of Alabama, Arkansas, Louisiana, Mississippi, and Tennessee, a region that is home to one-third of this nation's persistent-poverty counties, most of which are rural.

HOPE is also one of the largest Black and women-owned financial institutions in this country, and on behalf of the organization, I am here today to discuss the strategies to increase affordable homeownership and housing in this region, with the emphasis on increasing opportunities for communities of color.

The first strategy in increasing homeownership and affordable housing concerns down payment assistance. In the Deep South, there is nearly a 27 percent difference between Black and White homeownership. Largely due to financial exclusion and exploitative practices, many Black and Brown communities simply lack adequate capital to purchase a home.

Down payment assistance is a critical strategy in resolving that gap. Down payment assistance has the ability to transition households from a history of renting to a future of homeownership.

HOPE is familiar with the positive impact of down payment assistance, particularly through our experience with the NeighborhoodLIFT Program, a partnership between Wells Fargo and the NeighborWorks America organization, to increase the number of first-time home buyers, particularly among communities of color. In our experience, when we see an increase in down payment assistance programs, we see a clear correlation in the increase of homeowners of color.

The second strategy is that we must ensure that banks and credit unions offer mortgage products that meet the needs of communities that often find themselves in rural, persistent-poverty counties, and also that a secondary market supports those efforts. HOPE has an in-house mortgage product that meets the challenges of communities that often lack access to down payments. This product is manually underwritten. It discounts student loan deferred debt, and it also has a loan to value ratio of 100 percent, effectively eliminating the down payment disparities and challenges.

Now, what is interesting about our product is that the Government-Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, do not support the flexibility of this product. Their inability to purchase these loans really speaks to the lack of capacity to provide increased homeownership for these communities, and also limits our ability to expand our capacity to lend to these communities by the failure of them to purchase this loan product.

And lastly, for strategy, we must hold State Housing Finance Agencies (HFAs) accountable for meeting pandemic recovery needs of local people. An examination of the Emergency Rental Assistance Program shows that State Governments in the Deep South did not meet the needs of local people in the distribution of rental assistance at levels achieved across the country. Such findings call for increased accountability among States, particularly States with questionable track records in serving the most-vulnerable populations.

In conclusion, communities in America's Black Belt have long endured persistent poverty and its associated ills. However, these communities and the institutions that serve them have demonstrated the expertise to mitigate the effects of race in place, most often with significantly fewer resources than other parts of the country. The Community Development Financial Institutions Fund (CDFI Fund) has a track record of reaching and working with communities in partnership model solutions that work. With adequate resources supported in these institutions, and increased commitment by others to do the same, it is possible to ensure prosperity and mobility in the most economically-distressed communities in this country.

[The prepared statement of Mr. Burt can be found on page 46 of the appendix.]

Chairman CLEAVER. Thank you very much.

We will now hear from Mrs. Arriaga-Salinas. You have 5 minutes to present your oral testimony.

STATEMENT OF AMBER ARRIAGA-SALINAS, ASSISTANT EXECUTIVE DIRECTOR, PROYECTO AZTECA

Mrs. ARRIAGA-SALINAS. Good morning, Chairman Cleaver, and members of the subcommittee, and thank you for this opportunity.

I am Amber Arriaga-Salinas, assistant executive director at Proyecto Azteca. We are a nonprofit construction company based in San Juan, Texas, and our mission is to provide affordable housing for low-income families who cannot obtain a traditional mortgage. Our goal is to empower them to become responsible homeowners and move away from poverty to prosperity.

Colonias are substandard, isolated developments where residents lack basic services like potable drinking water, sewage treatment, electricity, paved roads, adequate drainage, street lights, sidewalks, and decent housing. Cheap former agriculture land was sold to low-income families, and developers were not required to improve infrastructure. Health, safety, economic, and housing challenges plagued thousands of colonia residents by the end of the 1970s.

There are approximately 200,000 people living in Hidalgo County colonias. They are industrious, hardworking, and family-oriented people, but it is not uncommon for residents to work multiple jobs to make ends meet. There is a low rate of conventional homelessness, but we do see a great deal of overcrowding.

In 1996, the State legislature began to implement model subdivision rules, where many improvements were made, but colonias still lack safe, decent, and affordable housing.

There is a great deal of persistent poverty despite decades of economic growth. In 1977, research showed that 40 percent of families were living in poverty, but today, we believe that it has not changed.

The McAllen and Edinburg metropolitan areas are some of the poorest in the country. There is very limited public transportation, and owning a vehicle is a necessity for colonia residents in order to maintain a job, go to school, shop for groceries, and visit the doctor.

Drainage improvements cannot keep up with the rapid growth. As buildings, parking lots, and highways grow, there is less space to divert water. And because colonias are isolated, the issues are magnified. There are many health challenges associated with flooding, such as diseases and increased mental distress.

Although the infrastructure is poor in colonias, we did see a great deal of improvements in great part due to the Colonia Ombudsman Program that the State unfortunately vetoed in 2016. Housing is the most important component that determines a family's quality of life, and communities cannot thrive when so many live in unstable conditions. We ask that a program like the State Colonia Ombudsman Program be revived in order to track improvements. And colonias would have a greater opportunity to address affordability, equity, and sustainability problems if the term, "colonia," were included in the Federal Housing Finance Agency's (FHFA's) Duty to Serve (DTS) definition.

Build Back Better and the American Rescue Plan moneys provided great relief for the families that we serve. However, Federal dollars are designated to address homelessness and rental assistance, and the definitions do not address the needs of housing in colonias. Rental units are limited for families in colonias. Rental vouchers outside city limits are not available. Rentals in colonias actually consist of travel trailers parked on lawns. Funds should be set aside in order to specifically address the unique need for affordable housing and community development in colonias.

[The prepared statement of Mrs. Arriaga-Salinas can be found on page 28 of the appendix.]

Chairman CLEAVER. Thank you very much.

Mr. George, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF LANCE GEORGE, DIRECTOR OF RESEARCH AND INFORMATION, HOUSING ASSISTANCE COUNCIL (HAC)

Mr. GEORGE. Thank you.

Chairwoman Waters, Chairman Cleaver, Ranking Member Hill, and members of the subcommittee, greetings, and thank you for this opportunity to testify on the issue of persistent poverty in America.

My name is Lance George, and I am the director of research and information at the Housing Assistance Council. The Housing Assistance Council, often referred to by our acronym HAC, is a national nonprofit corporation that supports affordable housing efforts in rural areas of the United States and the Territories. Inherent to HAC is our longstanding attention to persistently-poor rural areas and people. HAC's efforts in these communities have been at the core of our work since our founding over 50 years ago.

In addition to HAC's direct services, we continually assess and study the issue of persistent poverty to help inform strategies and solutions for these important communities. We know the members of this subcommittee are knowledgeable on the issue of persistent poverty, but we wish to highlight five quick trends that we believe are key to improving social, economic, and housing conditions in these communities.

No. 1, areas of persistent poverty are not random, and are geographically-clustered. While seemingly invisible to much of the nation, persistent-poverty counties make up one-tenth of all counties and 15 percent of our nation's land mass.

No. 2, persistent-poverty areas are fluid. According to HAC's recent estimates, 70 counties moved off of the persistent-poverty list, while 13 countries newly reached this threshold. But approximately 78 percent of current persistent-poverty counties have been in that state consistently since 1980. Although, I would note there has been a dramatic reduction in these counties over the last 40 or 50 years.

No. 3, poverty is not new to the Territories. Because of the focus of this hearing, HAC would also like to highlight that, for the first time, we calculated persistent-poverty status for Puerto Rico. All 78 of Puerto Rico's municipios were classified as having persistent poverty in 2020.

No. 4, race and ethnicity are closely aligned with the persistence of poverty. Sixty percent of people living in persistent-poverty counties are people of color, and 42 percent of persistent-poverty counties have majority populations of color.

And finally, trend No. 5, the visible impact of economic distress is evidenced in the housing conditions in these communities. The incidents of housing units lacking adequate plumbing is twice the national rate, and over 380,000 households in persistent-poverty counties live in crowded conditions. Additionally, more than half of persistent-poverty renters experience affordability challenges. Mortgage and housing finance are similarly unbalanced. Low levels of loan applications and loan originations and high rates of loan denials and high-cost lending are prevalent in many persistent-poverty counties.

Persistently-poor communities face regional and local challenges, yet importantly, have unique assets, strengths, and opportunities to combat geographic inequality. HAC recommends proactively considering geographic factors in Federal policymaking.

In our experience, and given the persistent-poverty landscape outlined before, there are two critical factors necessary to build equity in persistently-poor rural places. The first is just local organizational capacity. The second is access to capital. Additionally, tailoring the Federal resources and improving the reliability and availability of rural data would also improve equity for persistent-poverty communities. An example of this importance of data are HAC's development of the colonias investment areas. This research created a usable and programmatic definition of, "colonia," so that mortgage and housing finance resources can be more efficiently directed to colonia communities.

In closing, I would ask for indulgence from the subcommittee to add a personal note. I grew up and lived the first 18 years of my life in Lewis County, Kentucky, a persistently-poor county in Appalachia, that has experienced very high poverty rates since the 1960s and before. I wish to be clear, I did not live in poverty as a child, but I have family, friends, and acquaintances who were poor, and continue to live in poverty in the place that I love. And while the residents of Lewis County, like those from every persistent-poverty community, suffer from distressed economies, underresourced assistance, and disinvestment, but they also have a rich cultural history, perseverance, and a deep sense of pride in their community, and I share that pride.

Through this paradox of perseverance and pain, HAC appreciates the subcommittee's attention and motivation to provide meaningful change to the condition of persistent poverty in rural America. And the Housing Assistance Council, in collaboration with our community partners, stands ready to assist Congress in this goal.

Thank you again for this opportunity to testify.

[The prepared statement of Mr. George can be found on page 58 of the appendix.]

Chairman CLEAVER. Thank you, Mr. George.

Mr. Potterpin, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF CHRIS POTTERPIN, PRESIDENT, COUNCIL FOR AFFORDABLE AND RURAL HOUSING (CARH)

Mr. POTTERPIN. Thank you.

On behalf of the Council for Affordable and Rural Housing, or CARH, I would like to thank you for the opportunity to provide this testimony in support of the efforts to address chronic disinvestment in the colonias, the southern Black Belt, and the U.S. Territories.

CARH focuses on housing investments and providing affordable housing, and that is going to be the focus of my testimony.

CARH is an industry trade association with headquarters in Alexandria, Virginia, representing the interests of for-profit and nonprofit builders, developers, management companies, and owners, as well as financial entities and suppliers of goods and services to the affordable rental housing industry in rural America. My company, PK Companies, based in Michigan, develops, manages, and owns approximately 5,000 units of affordable rural housing units in about 8 States. We are a second-generation company that is committed to efficient, effective, and affordable rural housing.

The members of this committee and the other witnesses have done a great job of describing the problem that the southern Black Belt, the colonias, and the U.S. Territories are facing, and I believe that these problems are expressed throughout all rural areas in this country. And there continues to be an overwhelming need for both affordable and decent housing.

The lack of safe and decent housing in rural America is one of the greatest contributors to the challenge of poverty. The lack of affordable housing reflects the lack of investment in these localities more broadly. In fact, rural renters are more than twice as likely to live in substandard housing compared to people who own their own homes.

In these areas, we are losing our affordable units. Loss of federally-assisted multifamily housing means losing a finite resource, and that trend is contributing to challenges in rural areas. Most areas never had enough decent, safe, or affordable housing, and increasingly, those that did, are losing this resource.

The adverse effects of housing instability, as I said, have been covered well in this hearing already, but I want to highlight that the number-one impact is on the education and health of the country's greatest asset—the children—and it has been well-documented.

Neither the private nor the public sector can produce affordable rural housing independently of one another. There needs to be a partnership. We actually have a very good Federal program built to address this already. Federal programs have been very effective, when properly funded and supported with technology and government staff. But too often, these programs focusing on rural areas have been shorted as compared to their urban counterparts, and the agencies have been limited on staff levels and training resources.

Specifically to housing in rural areas, we are talking about the USDA Rural Development Program, specifically the Sections 514 and 515 loan programs and Section 521 rental assistance. They were reasonably well-funded from their inception up until the mid-1990s, and produced a large number of housing units in rural areas. Since the mid-1990s, these programs have not seen proper funding. The majority of the existing projects that were built are now 30-plus-years old, with no way of preservation or rehabilitation outside of the housing tax credit, which predominately goes to urban areas or suburban areas.

We are already losing our affordable housing projects. We are down to less than 14,000 projects and properties. Over the next decade, as many as three-quarters of all Section 515 mortgages will mature, and with it, the end of rental assistance for the folks in those properties, and that will affect approximately 250,000 families and elderly persons, leaving them without the ability to house themselves.

In 300 counties, Section 515 properties are the majority of project-based subsidized units, and 90 percent of all Section 515 properties are in counties with persistent poverty. We do have some tools available to help this problem. Rural development rental housing programs and the housing credit program are the best tools we have to develop more housing units from the housing that we have. Section 521 is rental assistance for [inaudible] programs and currently subsidizes 63 percent of the 515 units that are created. We need to increase this number to 100 percent.

Almost all of the residents who live in 515 housing that is not subsidized are overburdened, and that is a key tool to preserving the housing and using outside private resources to rehabilitate and preserve this housing for the next 30 years, and stop it from becoming market-rate housing and losing it out of the program.

Rural development needs more specific direction on how to use that rental assistance and using it for preservation of existing projects. We also need to modernize the housing credit to be more focused towards rural and allowed to use for more rural projects. We need to allow LLCs and S corps to participate more fully in the housing credit and support relief.

I know that I am over now, but we do need to support the Rural Housing Office with technology upgrades. Some of their programs are still from the 1990s, and they need more staff there. They have been chronically-understaffed.

On behalf of CARH, I would like to thank this committee for the opportunity to discuss rural housing issues with you today. And with a few relatively minor changes, we can apply the tools needed to continue successful partnerships in affordable rural housing. Thank you.

[The prepared statement of Mr. Potterpin can be found on page 69 of the appendix.]

Chairman CLEAVER. Thank you for your testimony.

I now recognize myself for 5 minutes for questions.

I want to begin with Mr. Burt. Based on your testimony, you have a lot of experience in dealing with this issue. What would you like to see that could help spur sustainable homeownership opportunities for people in rural communities facing persistent poverty?

Mr. BURT. I think we want to see more down payment assistance. Earlier in my testimony, I mentioned the Neighborhood LIFT Program. Through this program, we have been able to provide down payment assistance grants of up to $10,000 for 359 Mississippians. Approximately one-quarter of the mortgages originated were located in rural communities, 90 percent went to Black households, and 63 percent went to women head of household. This program is solid proof that down payment assistance is an opportunity to bridge the gap from renting to homeownership.

We actually estimate that we can close the homeownership gap in the Deep South through funding the mortgages for 500,000 people of color. Now, achieving such a goal would require the funding and maintenance of a flexible down payment assistance program. And to date, we have seen no other set of proposals with a greater potential to close this gap than the Downpayment Toward Equity Act. This Act appropriately targets down payment assistance to first-generation homebuyers, people most in need of an equity boost to get into a home. We also remain excited about that opportunity and look forward to more possibilities of increasing down payment assistance, particularly for rural communities, people of color, and communities that find themselves in persistent poverty.

Chairman CLEAVER. I agree with you. And I am wondering, Mr. Potterpin—I may have misunderstood you, but you were saying in your testimony that a great deal of the money went into the urban areas and a not so significant amount went into the rural areas. Did I interpret that correctly? Federal funds?

Mr. POTTERPIN. In regards to the Low-Income Housing Tax Credit Program, yes. There are certain set-asides that provide housing in rural areas, but not compared to the population that lives in rural areas or reflecting the need or the challenges that the rural housing is facing.

Chairman CLEAVER. Yes. I represent, believe it or not, a large rural area of Missouri, and the problem is not—from my perspective; I am interested in yours—based on Washington making decisions about where the money is spent. The problem is based on the fact that we give the States Federal funds to do exactly what you said needed to be done. And my interpretation is that the problem comes with the State. And if the money goes into entitlement cities, CDBG, they go into entitlement cities, and probably in most States, there may be four or five entitlement cities, with the exception of Texas, California, and New York. But then these smaller communities have to go and fight it out—200 or 300 smaller cities have to go and fight it out in their State capitals, and even then they get a puny piece of the money.

Mr. POTTERPIN. That is right.

Chairman CLEAVER. So if we are going to correct the problem, it needs to be with what is going on with the Federal allocation to the States because that is where the problem is most clearly seen. And I have been arguing this for a long time now, that we need to take a whole different view of this.

Even if you have to get the Community Development Block Grant, the States will have to—since they are not entitled, they have to go out and fight a little community 5 miles down the road to get a new water tower. It is a horrible situation that needs to be corrected. This might not be exactly what this hearing is about, but this creates one of the biggest obstacles to providing at least—it still wouldn't be sufficient housing dollars or dollars to fight poverty, but it is a serious, serious problem.

Thank you very much. My time is up.

I now recognize the distinguished ranking member, Mr. Hill.

Mr. HILL. Thank you, Chairman Cleaver. And first, let me thank you for your chairmanship of this subcommittee during this Congress, and for our work together and for your outstanding voice for the challenges in this subcommittee, particularly in housing and community development, with your background both in Congress and as a mayor. And while the bills that were noticed and attached to this hearing aren't partisan and had much bipartisan engagement, I would say, I hope in the coming Congress that we will be able to work effectively together in a bipartisan way.

Mr. Chairman, I ask unanimous consent to enter two documents into the record, both from the U.S. Government Accountability Office. The first is entitled, "Targeting Federal Funds, Information on Funding to Areas with Persistent or High Poverty," by GAO's Director of Financial Markets and Community Investment, Bill Shear, and others. It was issued in July 2020. And the second is also by Director Shear and his GAO colleagues. It is called, "Areas with High Poverty, Changing how the 10-20-30 Funding Formula is Applied Could Increase Impact in Persistent-Poverty Counties," that was issued in May of 2021.

Chairman CLEAVER. Without objection, it is so ordered.

Mr. HILL. Both of these reports are focused on economic development in areas with persistent or high poverty, and discuss how to improve ways various programs can target Federal funds, and overall transparency. And I would note that in the reports, GAO has found that HUD, USDA, and the Department of Commerce's Economic Development Administration (EDA) have not—and I am quoting from the report—incorporated leading practices for effective interagency collaboration in select economic development programs.

Mr. George, what is your view of that? Could we do a better job of interagency coordination to laser-beam all of these programs into these counties?

Mr. GEORGE. Thank you, Ranking Member Hill. I agree that there could be more coordination and more effort generally. I do think the agencies try really hard and are making sound investments in these communities. There are some instances that were noted in the testimony where there is a lack of adequate staffing and resources in some of these agencies to direct those funds, but by all means, we think collaboration is a good effort across-the-board among the agencies.

Mr. HILL. Right. Thank you.

Mr. Burt, first, please tell Bill Bynum hello for me. We were on the CDFI advisory board together in the early 2000s, and I enjoyed my association with him in overseeing the CDFI program at the Treasury. And thank you for being a good investor and partner in Arkansas with Hope Federal Credit Union and your nonprofit work.

What is your view of that coordination, on down payment assistance? In Arkansas, in talking to the Arkansas Development Finance Authority, we have really, because of our—we use the bond program to replenish that—we effectively have more down payment assistance available than people applying for it, as a general statement. I don't want to say any given year, but we have a robust State program there.

But how do you feel about the coordination of these Federal programs in persistent-poverty counties, and who stands out? Does the Delta Regional Authority help broker some of that, in your experience, in the Mississippi Delta?

Mr. BURT. Absolutely, we do support the interagency collaboration in deploying funds to communities that are deep in poverty. One of the things that we like to highlight is making sure that Federal funds get to the communities that do the best work in serving these communities, as evidenced by the Emergency Rental Assistance Program, and in some cases, the Homeowner Assistance Program is that, at times, our States may have the inability, or unwillingness to effectively serve these communities.

From our experience, we saw communities and households express challenges in accessing the Rental Assistance Program, whether due to an online application or having to have an email address or simply lacking access from State agencies that were managing the funds to actually access that critical relief.

But in addition to that, what we also like to amplify is that, where there are opportunities, send these funds directly to CDFIs with the strongest track record. We have a good example of the ways in which CDFIs have the ability to encourage public and philanthropic dollars to make a difference in homeownership in real communities.

This question reminds me of a story of Eastmoor, Mississippi, a small subdivision in Moorhead, which is a small town of about 2,000 people in the Delta. Around 1970, an Eastmoor subdivision was built right outside of the small town of Moorhead, hastily constructed. And in subsequent years, the sewage actually seeped into several yards and caused about 20-something homes to be either burned or destroyed.

In 2015, HOPE put a branch there in Moorhead, and we reached out to several partners and got a grant from Goldman Sachs, got money from the HOME Fund, got money from the Department of Agriculture, and with a few of the philanthropic moneys, we were able to provide rehabilitated housing for that community. That was 44 houses rehabilitated. That was 44 households that became homeowners.

So when we talk about the ways in which agencies could collaborate or think about the ways in which we could bring about greater resources to these communities, you have to include CDFIs with a strong track record and you have to include getting the money directly to them.

Mr. HILL. Thank you, Mr. Burt. My time is over, but thank you. I thought your answers were very, very helpful. And I yield back, Chairman Cleaver. Thank you for the hearing.

Chairman CLEAVER. Thank you.

I now yield to the Chair of the full Financial Services Committee, Chairwoman Waters.

Chairwoman WATERS. Thank you very much.

Since Mr. Hill started talking about whether or not there is cooperation between the agencies, and Mr. Burt, you mentioned how it became difficult to get rental assistance out into the community, let me ask you, do you believe that poor communities that do not have access to computers, do not have access to the technology that is oftentimes needed in order to make application for some of what we are sending to the cities or the counties or the States, and what do you think we can do about that, if you believe that is true?

Mr. BURT. I do think it is a challenge. That has come from my experience being on the ground with communities trying to access the rental assistance programs. One of the things we want to do is partner with organizations and also raise advocacy efforts to get those technologies to these communities, and even more importantly, making sure that these programs are just simply accessible to the communities where they are.

Simply put, when we construct policies and construct these Federal programs that we put under the jurisdiction of the States, we want to make sure the States are doing what they need to do to make sure the most-vulnerable communities have access to these critical funds in a post-COVID reality.

Chairwoman WATERS. Thank you very much.

Mr. George, how would housing and community development investments, like the more than $150 billion my committee secured in the Build Back Better Act, help alleviate persistent poverty in rural America? And what more can we do to ensure that existing Federal housing resources really reach poor rural communities?

Mr. GEORGE. Thank you, Chairwoman Waters. I would like to follow up on Mr. Burt's comments, candidly, and say that our number-one strategy that we posed was organizational capacity. At the Housing Assistance Council, we work with local, community-based organizations, nonprofit organizations, municipalities, Tribal entities, and some for-profit developers. And candidly, they know what is best for their community. We just try to enhance their services and their ability to provide those services. But they are trusted actors in these communities, and I applaud the subcommittee for including many of these entities in this discussion. These are valuable partners that we work with every day and they really know their communities.

So, I think our goal is to enhance those funds to enhance the capacity of those local community-based organizations. For example, the Housing Assistance Council uses vital resources from HUD's Rural Capacity Building grant, and we have made valuable investments in many of these organizations, which is—

Chairwoman WATERS. Of the $150 billion that we worked so hard for, to get out to assist the housing needs of this country, everything from Section 8 vouchers, to money to deal with the renovation and repair of public housing, and on and on and on, how much would that have helped the poverty in some of the communities with which you deal?

Mr. GEORGE. It obviously would have been an immense help. It is almost incalculable. But obviously, these communities need all the assistance and all the directed targeted assistance that they can handle.

Chairwoman WATERS. We are going to continue to fight for housing, despite the fact we did not get the support that was needed from the opposite side of the aisle.

But on this issue of whether or not the resources we worked so hard for, if we get them signed by the President, they go out to the communities. We still have poor communities who are not able to access these resources for lack of computers and technology. And I had to call in Legal Aid in Los Angeles and set up meetings and get people into board rooms, et cetera, to try and help people who needed it so desperately.

What are we going to do? Do we have enough nonprofits that can basically utilize these resources and get them out to the persistent-poverty communities, or do we need to set up some brick-and-mortar offices and locations with big signs on them so people can come and get some help for the utilization of the resources? What do you think? How are we going to do it?

My time is running out. I know you have some answers.

Mr. BURT. I was about to say, I will take it. Again, I think the point to be made is that we want to make sure that State leadership is doing all that they can to reach the communities that are most in need. When you talk about the challenges around broadband and technology, money has already been deployed to get these communities the technology that they need. So, some of this is on nonprofits, but the brunt of the responsibility lies on the administrating authority over the fund.

And I would say that we can continue to put pressure on our States to do right by the communities that need it, with research, advocacy, and data. And I think that may be one of the best ways forward.

Chairwoman WATERS. Thank you. And thank you, Mr. Chairman.

Chairman CLEAVER. Thank you.

The gentleman from Tennessee, Mr. Rose, is now recognized for 5 minutes.

Mr. ROSE. Thank you, Chairman Cleaver and Ranking Member Hill, for holding this hearing.

According to the Majority's memorandum for this hearing, the focus of the hearing is intended to explore persistent poverty in regions that are predominantly rural, so I believe that it would have been a good idea for us to have the Rural Housing Service Administrator testify.

I will note that this committee has not had a Biden Administration official testify since July 20th. Thankfully, that is changing tomorrow, when we will have the bank regulators coming before the committee, but this cannot continue. One of our core responsibilities as Members of Congress is oversight, and we cannot conduct adequate oversight when the Majority is shielding the Administration from scrutiny.

As my time is limited, I will dive right into my questions. In my district in Middle Tennessee, 12.9 percent of total occupied housing units are manufactured homes. Manufactured housing is an affordable homeownership option available nationwide for minorities, the underserved, and low-income borrowers.

USDA Section 502 offers Federal backing for loans issued by approved private-sector lenders to low- and moderate-income families for purchased, construction, or rehabilitation of modest homes. Eligible borrowers can obtain financing for up to 100 percent of the appraised value of the home. New manufactured homes are currently eligible for financing through the Section 502 program, but existing homes are not.

Mr. Potterpin, do we need to make sure that the USDA Section 502 program better supports manufactured housing so that more low- and moderate-income rural Americans can access financing to purchase manufactured homes?

Mr. POTTERPIN. Absolutely. I think that we need to make sure that all of USDA's programs—502, 514, 515—have better funding and more access to folks to provide more housing units and to preserve more housing units.

Mr. ROSE. Thank you. I believe that we need broad-based solutions to increase our housing supply to meet demand. This includes both single and multifamily options.

Regarding multifamily, research from the National Association of Home Builders and the National Multifamily Housing Council notes that regulations imposed by all levels of government account for an average of 40.6 percent of multifamily development costs.

Mr. Potterpin, do you believe that when multifamily development costs rise, it translates to higher rents and reduced rental housing affordability?

Mr. POTTERPIN. Yes, it does. And I would also add that rural areas are impacted even more because their rents are typically lower, but when the costs rise, as they do everywhere, and we have less options for contractors or competitive bidding, they are feeling the impact even greater. And the rents go up a greater percentage. That is why it is important to improve rental assistance and the amount of assisted units and have more access for these funds.

Mr. ROSE. And just to reiterate, Mr. Potterpin, do you believe that multifamily development could help improve the supply of affordable housing in rural areas?

Mr. POTTERPIN. No question at all. Yes. It is desperately needed in almost every rural area. And with minimal investment into these programs, we can leverage private dollars on an average of $7 to $11 for every dollar invested to create more units.

Mr. ROSE. The Community Development Block Grant (CDBG) program was created to help urban areas modernize and respond to the blight and decay that plagued cities in the 1970s. The authorizing statute states that the primary objective of the law was to establish the development of viable urban communities. Since then, cities now have far greater access to economic development and services than their much smaller rural neighbors.

Mr. Potterpin, does it make sense to update the mission and purpose of the CDBG program so that it also focuses on the unique challenges of rural Americans living in the 21st Century?

Mr. POTTERPIN. CARH would welcome this being addressed. The challenges of rural are different and sometimes greater than those facing their urban counterparts, and I think we need to update this to give easier access to these funds, as was noted elsewhere in this hearing. Rural municipalities often have less resources to pursue funds and compete for funds than their urban counterparts, so they are at a disadvantage, and they need more assistance in doing so on a level playing field.

Mr. ROSE. Thank you. And, Mr. Chairman, I see my time has expired, so I yield back.

Chairman CLEAVER. The gentleman yields back.

The gentlewoman from New York, Ms. Velazquez, who is also the Chair of the House Committee on Small Business, is now recognized for 5 minutes.

Ms. VELAZQUEZ. Thank you, Mr. Chairman, and Mr. Ranking Member, for this important hearing.

Professor Bonilla, I agree with you in terms of how poverty in Puerto Rico is directly linked to the colonia situation in Puerto Rico, and that Congress has a responsibility for resolving this issue.

Following Hurricane Maria in 2017, under President Trump's leadership, HUD imposed unique restrictions and stalled almost $20 billion in Federal disaster funding to Puerto Rico. President Biden has since removed this restriction. But can you explain how President Trump's decision to set up roadblocks and make it difficult for Puerto Rico to access disaster funding in 2017 has compounded its current recovery efforts?

Mr. BONILLA. Yes. Thank you, Congresswoman. The Trump Administration engaged in practices of overscrutiny of applicants of color and put excessive barriers on applications for aid on behalf of both individuals and the Puerto Rican Government. Some of these measures were placed in the name of preventing corruption, but it is important to mention that the only people who have been accused of corruption in the wake of Maria have been FEMA agents and contractors.

The delay of Federal aid and of Federal assistance programs to which Puerto Ricans are fully entitled as residents of the U.S. Territories has caused incalculable damage to a society that was already, as I mentioned, experiencing 40-percent acute poverty, and that had already been facing measures of austerity, that had dismantled the education system, public infrastructure, and other public services that were then unable to respond and be available to citizens in the time of immediate emergency.

At the Center for Puerto Rican Studies, we call for greater scrutiny of these FEMA practices and the practices of other government agencies that should be assisting Puerto Ricans in their time of need.

Ms. VELAZQUEZ. Thank you. Professor, one of the issues facing Puerto Rico after the most recent hurricane is the lack of specific data on how low-income Black and rural communities remain at a disadvantage on the island.

What should Congress do to immediately address this information gap so it can enhance long-term investment in these communities?

Ms. BONILLA. The first issue is that we need clarity on why certain government agencies just suddenly stopped providing data for the Territories. One example is the American Housing Survey, which just stopped being done in Puerto Rico after Hurricane Maria, at a time when this information was the most necessary for documenting the challenges of local residents.

A second example is the Household Pulse Survey, another important survey, which not one Territory has participated in.

We also need greater data related to FEMA claims. It is difficult to know where and who was denied and who did not have access to aid; 60 percent of applicants were denied, and there is really no transparency as to how those decisions were made.

I should also add that Federal agencies should be working with local groups to make sure that the existing mechanisms are adequate for the Territories. A primary example is the U.S. Census, which in 2020 suddenly added a race question in Puerto Rico with inadequate categories and inadequate education campaigns. So, we really stress the need for that, yes.

Ms. VELAZQUEZ. Yes. Although FEMA updated its policy last year to allow homeowners to self-certify their ownership, reports from the ground indicate that FEMA is wrongfully denying assistance to eligible survivors of Hurricanes Fiona and Ian.

Wouldn't you agree that it is not enough for FEMA to simply change its policy, but it also needs to act with recovery partners on the ground to ensure Puerto Rico homeowners get the assistance to which they are entitled?

Ms. BONILLA. Absolutely. We have seen that simply [inaudible] is not enough. The community organizations on the ground are reporting that we are seeing the exact same issues of lack of Spanish translation at FEMA sites, of lack of interpretation for deaf communities, and of overscrutiny and of a demand for documentation that is not actually necessary to apply for aid.

As one of my colleagues in Puerto Rico says, FEMA must learn how to learn; that is, they cannot be impervious to changes made at the top, that are announced, and need to somehow trickle down so that we actually see them applied and in action. And we feel strongly that it is only by working in partnership with community watchdogs that we can actually ascertain if these changes are being implemented.

Ms. VELAZQUEZ. Thank you.

Mr. Chairman, I yield back.

Chairman CLEAVER. The gentlewoman yields back.

The Chair now recognizes the gentleman from Wisconsin, Mr. Steil, for 5 minutes.

Mr. STEIL. Thank you very much.

I want to thank the chairman and the ranking member for holding today's hearing. Entrenched multigenerational poverty is an incredibly serious challenge in many parts of our country. It is true of the areas listed in the hearing title, but it is also true in rural and urban communities in Wisconsin, in my home State.

As many of you may know, or some of you may know, I am the ranking member on the Select Committee on Economic Disparity and Fairness in Growth, what I call the economy, and we have really dug into the impact of the persistent poverty that is plaguing far too many American families.

Interestingly, in one of the areas we went to, a colonia in Texas on the U.S.-Mexico border, we saw kind of the direct impacts that the failure to secure the U.S.-Mexico border has had on a lot of the local communities in Texas, where they are expending resources at the local and State levels for what should be a national solution to that challenge that actually would be far better off serving many of the people who are suffering from the topic we are discussing today.

Let me shift gears slightly to you, Mr. Potterpin. Your company specializes in developing projects using Low-Income Housing Tax Credits, Historic Preservation Tax Credits, and New Market and Opportunity Zone Programs.

Could you offer a few recommendations and improvements to those programs that make it easier for developers to add affordable units in more challenged communities?

Mr. POTTERPIN. Absolutely. Thank you. A lot of the changes that I would recommend were actually proposed and still exist in the Affordable Housing Credit Improvement Act. That Act would have expanded the 9-percent Housing Tax Credit by 50 percent, and also would have increased rural basis boost. We were offered a rural basis boost of up to 30 percent, offering more credits to those, and that is essential to allowing real deals to compete federally on bond deals, 4 percent credit deals where many of the rural deals with lower rents don't pencil for those types of credits. That development deals don't make sense with a 30 percent boost, many deals now would and would offer preservation.

Additionally, one other thing that is being discussed right now that would be very helpful is reducing the bond test from 50 percent to 25 percent, essentially doubling the capacity of 4 percent credits in each State. Many States which are now using all of their allocation, all of these would offer a lot more units and, again, leverage a lot of private dollars to provide those.

Mr. STEIL. Thank you very much, Mr. Potterpin. Let me shift gears somewhat significantly. We talked a lot about government intervention in our more-urban areas or denser-population areas. I know your business also does a lot of work in rural America.

Shifting away from just government support, what are the chief problems you encounter when your firm is investing in rural communities, and what can be done to encourage more investment in more-rural or less-densely populated areas?

Mr. POTTERPIN. I think a lot of what we are facing, especially in the affordable housing world, where we have to work with the communities very closely, sometimes we need—we are offering lower-rent communities, so we need tax abatement or other assistance or at least cooperation from those communities. And those communities often don't have the staff or the resources that urban communities do to facilitate the development and make a more open—

Mr. STEIL. Let me push you there just a little bit, if I can. What areas outside of government intervention might be helpful, particularly in rural areas, understanding the impact that tax structuring can have?

Mr. POTTERPIN. Sure. In many areas, most communities are often dependent on one big supplier or job supplier, so those areas are dependent on that and it is hard to underwrite or solicit investment. So if we can find ways to broaden the supply base of jobs and the infrastructure, especially infrastructure where it is hard to—oftentimes we are coming from—if we are looking to develop in rural communities, the water infrastructure, the broadband infrastructure, the other infrastructure that is necessary to provide amenities and provide housing for those residents, it does not exist. Other ways to do that would be to improve that infrastructure there, or we can work directly with job suppliers.

Mr. STEIL. Thank you very much, Mr. Potterpin. I appreciate you and all of our witnesses here.

Mr. Chairman, thank you for holding today's hearing. I will yield back.

Chairman CLEAVER. The gentleman yields back.

The gentlewoman from Ohio, Mrs. Beatty, who is also the Chair of our Subcommittee on Diversity and Inclusion, is now recognized for 5 minutes.

Mrs. BEATTY. First of all, let me say thank you, Mr. Chairman, and thank you to the witnesses present and on the screen. Thank you for allowing us to have the opportunity to take a look at persistent poverty in America in those areas as cited in the hearing.

Let me also say thank you—I am sorry our Chair of the Full Committee is not here, but certainly we did hear from the Biden Administration, and most of us will know that no one has been a bigger advocate for housing than Chairwoman Maxine Waters, and you, Mr. Chairman.

And I was very pleased when our HUD Director came before the Financial Services Committee—Biden's Administration, just for the record—and talked about the $3.8 billion in CDBG, and also specifically said that their area of interest in housing included working in those underserved areas in cities, small towns, and rural areas. So, I think we know where the Biden Administration stands on that.

My first question will go to you, Mr. Burt. And I want to make the connection to when we talk about housing, especially in the southern States, that we tie it to the racial wealth gap. And certainly, we know that it is important to increase homeownership for

Black Americans. When we think about places like Mississippi and Tennessee and Arkansas, I noticed that most of you talked about those southern States and talked about the percentage of poverty for the nation coming from those southern States in rural areas.

The renowned Bryan Stevenson said, "The opposite of poverty is not wealth, but it is justice." So when I look at homeownership, I look at the disparities, I look at whether those are in Black communities, and in urban or rural areas. Certainly, a lot of our Members represent rural areas and also are members of the Congressional Black Caucus.

Can you explain why median home values in Black communities are significantly lower than outside of the Black Belt and the effect that has had on the racial wealth gap?

Mr. BURT. Yes, I can. Effectively, in the Deep South, this is the region that holds the Black Belt, these counties that are majority persons of color. It is not unusual to see that they have higher rates of homeownership in the region, given that a lot of the housing stock is actually passed down generation to generation.

The issue is that because of historical challenges of, again, financial lending exclusion, redlining, and the lack of access to affordable mortgages, the quality of housing hasn't kept up with the pace of homeownership.

Said more simply, in Black communities that are in persistent poverty, and in rural counties, people may have a house, but they don't have the capital, or the access to capital to get renovations, or they don't have the access to get capital to pull equity and increase the equity out of the same housing stock.

In short, what we see with homeownership is we actually see that it is really a function of the lack of affordable mortgages. And even beyond that, when we talk about persistent-poverty counties, we realize that of the 158 counties that have an unbanked and underbanked rate of 1½ times the national average, 75 percent of those counties are persistent-poverty counties.

Again, persistent-poverty counties in our region are majority persons of color, and they are more likely to be rural. What we see is an intersection of the compounding impact of the lack of investment into these communities. So, it is affecting not only their ability to get a home mortgage, become a homeowner, but also—

Mrs. BEATTY. I am going to have to stop you, because my clock is running out, but that was very helpful.

Mr. George, kind of to segue from that, what do you think are some of the things we can do to boost homeownership in the southern Black Belt regions?

And I say that because we know the small number of Minority Depository Institutions (MDIs) that we have, and Community Development Financial Institutions (CDFIs). What are some of the things you think we can do?

Mr. GEORGE. Thank you, Congresswoman. Obviously, to reiterate the comment, access to capital is a major strategy, and notably, what we would call good capital, improved resources to USDA's Rural Development Service, so borrowers can get good quality loans and not access to subprime loans or chattel loans in many cases.

Mrs. BEATTY. My time has run out, but you can respond more in writing, if you like. Thank you.

Mr. GEORGE. Okay. Thank you.

Mrs. BEATTY. I yield back, Mr. Chairman.

Chairman CLEAVER. Thank you. The gentlewoman yields back.

The Chair now recognizes the gentleman from San Diego, Mr. Vargas, for 5 minutes.

Mr. VARGAS. Thank you very much, Mr. Chairman, and I thank the ranking member and all of the witnesses today.

HUD defines colonias as communities located within a 150-mile region along the U.S.-Mexico border that, "lack adequate water, sewer, or decent housing, or a combination of all three."

Mrs. Arriaga-Salinas, you noted that colonias suffer from persistent poverty, limited access to healthcare and public transportation, and flooding due to lack of adequate infrastructure. What can Congress do to prioritize the voices of individuals who live in your community as well as colonias?

In my home State of California, my district is the entire California-Mexico border, and all of it is within 150 miles of the border. What can we do?

Mrs. ARRIAGA-SALINAS. I think that there are quite a few things that can be done. Coming from a nonprofit, I think giving opportunities to nonprofits and local voices is very important.

For colonias, I think the challenges are very unique. There are moneys that were mentioned today that would assist with rental assistance or to make other developments. However, in colonias, we cannot use vouchers for that because people are renting a dilapidated mobile home or a shed. That is their rental unit. There is no way for them to be able to access vouchers when that is their option.

There aren't enough funds for people to rehabilitate their homes. And one of the challenges that we see is that as these colonias are annexed into cities, they are not seeing the benefits. They are not seeing the infrastructure improvements, but their taxes are going up. And I think that when a colonia is no longer under that designation, but they are annexed into the city, the term, "rural," goes away.

We are not allowed to use rural development moneys, 502s and things like that, because there is population growth, but the housing and the infrastructure has not changed, and I think that is something that absolutely needs to be addressed.

When the term, "colonia," dissipates the amount of funds that we are able to use, that makes it much more challenging. So, I think that recognizing the unique problems in colonias would make a great deal of change.

Mr. VARGAS. First of all, thank you for that answer. But let me challenge you a little bit on the definition of, "colonia," because, again, the definition helps in my district, but frankly, the Central Valley of California has what I would consider colonias, but it is beyond the 150-mile area of the border.

Do you think that some of those areas should be designated as colonias? Why or why not?

Mrs. ARRIAGA-SALINAS. I absolutely do. I recognize that communities that haven't been able to improve their infrastructure need the change, because if there is severe weather that affects them, and the infrastructure is not in place to address that, then the potential damage is just magnified. And I feel that would be very beneficial.

Mr. VARGAS. Often, severe weather in central California is the lack of water. So it is not the flooding because there is too much water; it is the lack of water. It goes the other way.

Mr. George said that the $150 billion that we put in the Build Back Better Act that our Chair fought so hard for would help immensely, almost incalculably.

Mr. Potterpin, you also said that the leverage ratio would be 1 to 7 in some instances. Could you tell us then what you think, Mr. Potterpin, that money could have gone for or how helpful it would have been for this persistent poverty?

Mr. POTTERPIN. I concur with Mr. George. Almost incalculable, the amounts that were talked about when looking at those budgets for Build Back Better. Specifically, in the Rural Development, what was slated for the rural development budget at that point for the 515 and 521 programs was almost 20 years of normal funding in 1 year, and it would have—these properties are falling behind through deferred maintenance every year. There is not enough money to even maintain what is there, and this would have put them back on the right track for preserving its entire portfolio.

Mr. VARGAS. I am running out of time. Thank you very much. I hope we do that. I think the problem was the name. We should call it the Republican plan and just pass it.

Thank you again, Mr. Chairman. I appreciate it.

Chairman CLEAVER. Thank you.

The gentleman from New York, Mr. Torres, is now recognized for 5 minutes.

Mr. TORRES. Thank you, Mr. Chairman.

I have several questions and comments directed toward Ms. Bonilla. One of the root causes of persistent poverty in Puerto Rico is the Insular Cases, which, to me, represents a continuation of Jim Crow. Denouncing the Insular Cases as a vestige of Jim Crow is not hyperbole, it is a statement of historical facts. The Supreme Court that gave us *Plessy* v. *Ferguson* and the doctrine of separate but equal is the same court that gave us the Insular Cases, which imposes second-class status on the U.S. citizens of U.S. Territories.

There are more than 3 million American citizens of Puerto Rico deprived of equal protection simply because those citizens happen to live in an unincorporated Territory, which is a second-class status fabricated by the United States Supreme Court.

The term, "unincorporated Territory," appears nowhere in the actual text of the Constitution, yet the self-proclaimed textualists and originalists on the Supreme Court seem to be in no rush to overturn the Insular Cases. How telling.

As you know, Ms. Bonilla, the Insular Cases enable the Federal Government to discriminate against the American citizens of Puerto Rico. The American citizens of Puerto Rico are excluded from SSI, excluded from SNAP, excluded from their fair share of Medicaid funding, and excluded from far too many programs to enumerate.

Do you think there is a single State in the United States that could absorb the fiscal shock of losing all of its SSI funding, all of its SNAP funding, and most of its Medicaid funding? Can you think of a single State that could absorb those fiscal shocks?

Ms. BONILLA. Obviously not.

Mr. TORRES. Is it reasonable to expect Puerto Rico to suffer fiscal conditions and constraints that not even the wealthiest States like New York or California could survive?

Ms. BONILLA. Absolutely not.

Mr. TORRES. And the Federal Government denies Puerto Rico access to Federal programs that are crucial to the fiscal solvency of just about every State.

Is it fair to say that the United States, by denying the island access to that which is essential, has essentially set up Puerto Rico to fail?

Ms. BONILLA. It has set it up to fail, but it has set it up to succeed as a colony, which is what the United States wishes to hold it as since it is what it continues to replicate in Puerto Rico and in the other U.S. Territories.

Mr. TORRES. Do you believe, as I do, that overturning the Insular Cases is necessary for the recovery of the island?

Ms. BONILLA. Honestly, this might surprise you, but I don't think it is necessary because it is, in fact, just an excuse. I think it would help to remove the excuses that the U.S. Government uses to keep treating Puerto Rico differently, but the fact is that the U.S. Government, the U.S. Congress, could begin to treat Puerto Rico differently today. It doesn't have to remove the Insular Cases in order to do that.

Do I think it is a racist law that brings shame to the U.S. Government? Yes. But I don't think it is more than just an excuse for the conditions that are currently in place.

Mr. TORRES. As you might know, the Jones Act is a third wheel in American politics. Congress is fiercely protective of the Jones Act, which discriminates against Puerto Rico. What are your thoughts on the disparate impact of the Jones Act on the island?

Ms. BONILLA. Without a doubt, the Jones Act brings nothing but increased costs to a place that is experiencing persistent, acute, and systemic poverty across every single one of its counties and municipios.

The problem with the Jones Act is that it is not a partisan issue. It does not impact one party or another, and it has not been taken up by one party or another. But the fact is that the only folks who benefit from the Jones Act are the shipping industry in the United States. So, it does need to be brought under greater scrutiny and questioned and repealed.

Mr. TORRES. Not every State and Territory is subject to the Jones Act. Both Puerto Rico and Hawaii have the highest electricity costs in the United States, and both Puerto Rico and Hawaii are subject to the Jones Act. Do you think that is a coincidence?

Ms. BONILLA. No. Obviously, there are folks who are benefiting from the extreme costs that are spent in transporting goods to these places. However, I think it is important to recognize that some folks benefit, but this does not benefit the U.S. economy as a whole, since it actually makes it more expensive for many U.S.

businesses to operate in Puerto Rico because of these excessive shipping costs.

Mr. TORRES. My time has expired. Thank you.

Chairman CLEAVER. Mr. Torres yields back.

We have no further witnesses.

Let me thank the witnesses for your testimony, and your participation today.

The Chair notes that some Members may have additional questions for these witnesses, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is now adjourned.

[Whereupon, at 11:32 a.m., the hearing was adjourned.]

A P P E N D I X

November 15, 2022

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Testimony for Hearing on: Persistent Poverty in America: Addressing Chronic Disinvestment in Colonia, the U.S. Territories and the Southern Blackbelt

Testimony before the Committee on Financial Services U.S. House of Representatives

November 15, 2022

Amber Arriaga-Salinas, Assistant Executive Director at Proyecto Azteca

I am Amber Arriaga-Salinas, Assistant Executive Director at Proyecto Azteca. Proyecto Azteca is a 501(c)3 non-profit construction company based in San Juan, Texas. Our mission is to provide affordable housing for low-income families who cannot obtain a traditional mortgage. Our goal is to empower them to become responsible homeowners and move them from poverty to prosperity.

History of Colonias

Colonias are isolated, substandard residential housing developments where residents lacked basic services like potable drinking water, sewage treatment, electricity, paved roads, adequate drainage, streetlights, sidewalks and decent housing.

Cheap land was sold to low-income families and farmworkers who could not afford conventional mortgages. Real estate developers were not required to improve infrastructure. Health, safety, economic, and housing challenges plagued thousands of colonia residents by the end of the 1970s.

Poverty persists in colonias. Colonias lack access to safe, decent and affordable housing.

The Life of a Colonia Resident

Approximately 200,000 people live in Hidalgo County Colonias. They are hardworking, industrious, and family-oriented. It is not uncommon for residents to work multiple jobs to make ends meet. There is a low rate of conventional homelessness; its common practice for several families to live under one household.

I met Nancy a year ago. She lives in a small colonia in Donna, Texas. She is creative, hardworking, a mother, a wife and an active member of the community. Our organization first met Nancy when we started a solar panel installation project; SEMPRA Energy and S.E.L.F (Solar Electric Light Fund) donated panels and support for the project. We began knocking on doors and distributing flyers to let families know that we had solar panels to give away. After ten minutes, Nancy opened a warped picket gate and asked if we needed assistance.

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We walked behind the gate and saw a cement slab surrounded by 2.5-block walls. Their dream home has been under construction for 10 years. She hoped they would be able to finish it soon. Strong winds caused the roof of their trailer to fly off during the last storm. The rain had leaked into her daughter's room, causing the floor to sink. The family earns approximately $18,000 a year. After receiving their stimulus checks, the couple built a metal roof over their mobile home, "to stop the leak when it rains," and saved the rest because they did not know how long they would have to wait before getting back to work.

Two of Nancy's daughters are in high school and are both homebound. So she stays at home to make sure they have everything they need.

Nancy's husband, Jesus, works odd jobs. Because he works with cement, the rainy months are difficult for him to bring in money. To earn money, Nancy makes and sells jewelry and food; she is currently selling Christmas decorations she made to buy small gifts for children in her neighborhood. "Everyone should open a present at Christmas," she says.

Thanks to the donated solar panels, the family saved over $100 last month. There were infrastructure challenges that prevented the panels from being installed almost a year ago. Permits were difficult to obtain. The summer months yielded electrical bills of $380 dollars. Nevertheless, they are grateful for the help. Nancy and Jesus dream and pray of finishing their home, "Con el favor de Dios." [With God's favor]

Other families in the neighborhood were not as lucky. They will not be able to receive assistance. They live in homes that don't meet minimum building standards. Additions built over time would have to be demolished to obtain permits to install solar panels. Additional structures are haphazardly put together with pieces of plywood or metal sheets. Nevertheless, it's part of their home.

Furthermore, they cannot pull permits due to title and deed issues. Remedying those issues, is time-consuming and costly; they cannot take time off work. There are few options for them right now. It is everyone's dream to build something safer and better one day.

Prevention of Colonias

In 1996 the Texas Legislature began to implement the Model Subdivision Rules which made many improvements for colonias. Colonias still lack safe, decent and affordable housing. Currently, county officials are addressing major drainage issues with the federal dollars they receive. The Hidalgo County Judge has started a prosperity task force to see how county leaders can help address issues affecting low-income families.

Challenges in Colonias

Poverty

Despite significant urban and economic growth in nearby municipalities, South Texas colonias have persistent poverty. In 1977, research by the LBJ School of Public Affairs showed that 40 percent of residents lived in poverty[i]. The Hidalgo County Judge believes the poverty rate has not changed and is still at 40%. The pandemic resulted in colonias being severely undercounted during the 2020 Census. The McAllen-Edinburg and Brownsville metropolitan areas alternate between the poorest in the country every year.

Transportation

Rural Hidalgo County has very limited public transportation available. Rural communities are extremely dependent on transportation. In the absence of these transportation options, people have difficulty accessing what they need. Owning a vehicle is a necessity for rural and colonia residents to maintain a job, go to school, shop for groceries, and visit the doctor.

Flooding

Drainage improvements and developments cannot keep up with Hidalgo County's rapid growth. As buildings, parking lots, and highways grow, there is less space to divert water. Because colonias are located in rural areas with poor infrastructure, the problem is magnified. There are many health challenges associated with flooding, such as mosquito-borne diseases, stagnant water, overflowed septic tanks, and increased mental distress. Many similarities exist between colonias and rural communities in developing countries[ii].

Health

There are over 300,000 uninsured residents of Hidalgo County, there are no public hospitals, there is little assistance for those without health insurance; specialists will not serve patients without health insurance that are referred by federally qualified health clinics unless they can produce high cash payments.

Infrustructure

Infrastructure quality in Texas colonias varies. Homes often share garden hoses and extension cords as they cannot afford utility hookups. Wooden planks are used as pathways over flood-prone ground. There are no parks, no sidewalks. However, there have been improvements since 1996.

Texas invested millions in infrastructure projects. The basic infrastructure is now in place in many colonias that were previously underdeveloped. This success was due in great part to colonia Ombudsmen program. The program tracked the state's progress in improving conditions in colonias and reporting those results to the legislature. In 2016 that program was vetoed[iii].

Policy Initiatives

Housing is the most important component that determines the quality of a family’s life. The most prevalent challenge to colonias is the lack of decent, safe and affordable housing. Communities cannot thrive when so many live in unstable conditions.

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Definition of Colonia

Urbanization and growth in the Rio Grande Valley have placed many colonia residents in a position where they have been incorporated by a city, but do not enjoy its benefits and services. Because "rural" is no longer valid for some colonia residents, we can't provide them with services.

Colonias would have a greater opportunity to address affordability, equity, and sustainability problems if the term "colonia" were included in the Federal Housing Finance Agency's Duty to Serve (DTS) Underserved Markets.

Funding for the Purchase of Land or Infrastructure Improvements

We are witnessing an increase in residential land prices. In the last two years, the price of land in residential rural areas surrounding existing colonias has increased by 400%. Lots that were priced at $15,000 now cost $75,000 or more. At those prices, colonia residents cannot afford to build a safe and decent home. Sheds and dilapidated mobile homes are being used for homes.

We applied and received SHOP funds with the help of the Housing Assistance Council. We hoped to use the funds to assist families with lot payoffs. Rather than owing $10,000, the families were required to pay $75,000 in early payoff penalties or private transfer fees. Funds available to assist families are not enough to curb predatory practices. We are grateful to the Housing Assistance Council for recognizing this challenge.

Colonias and rural areas need more funding to purchase land at affordable prices.

Colonia Set-Asides

Build Back Better and the American Rescue plan monies provide great relief for the families we serve. However, the federal dollars I see are designated to address homelessness and encourage the construction of rental properties.

As a family-oriented community, the Rio Grande Valley has low levels of conventional homelessness. There is a lot of overcrowding in colonias; we often see three to four families living under one roof. Rental units are limited. Vouchers outside city limits are not available. Rentals in colonias consist of travel trailers parked on lawns.

Funds should be set aside specifically to address the unique need for affordable housing and community infrastructure upgrades in colonias.

We also ask that a program, like the Colonia Ombudsman program, be revived, to ensure that the progress made can continue to assist low-income families.

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[i] Haynes, K. E. (2021, October 1). *Colonias in the Lower Rio Grande Valley of south texas: A summary report. Lyndon B. Johnson school of public affairs, policy research report, number 18*. Academia.edu. Retrieved November 11, 2022, from

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https://www.academia.edu/54598772/Colonias_in_the_Lower_Rio_Grande_Valley_of_South_Texas_A_Summary_Report_Lyndon_B_Johnson_School_of_Public_Affairs_Policy_Research_Report_Number_18?email_work_card=view-paper

[ii] Galvin, G. (2018, May 16). ***America's third world: Border colonias in Texas struggle to attain services***. U.S. News. Retrieved November 11, 2022, from https://www.usnews.com/news/healthiest-communities/articles/2018-05-16/americas-third-world-border-colonias-in-texas-struggle-to-attain-services

[iii] *Las colonias in the 21st Century*. Focus Area: Infrastructure | Las Colonias in the 21st Century: Progress Along the Texas-Mexico Border. (n.d.). Retrieved November 13, 2022, from https://www.dallasfed.org/~/media/microsites/cd/colonias/infrastructure.html

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Photos of homes in Colonias in Hidalgo County

Mobile Home in Donna, TX

Home Under construction in Donna, TX

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Home in Colonia Lucero Del Norte in Mercedes, TX

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A mobile home with attached addition. Donna, TX

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Flooding in Colonia Lucero Del Norte in Mercedes, TX

CENTRO CENTER FOR PUERTO RICAN STUDIES HUNTER CUNY

To:	Members, US House of Representatives Committee on Financial Services
From:	Dr. Yarimar Bonilla, Director, Center for Puerto Rican Studies at Hunter College
Date:	November 14, 2022
Subject:	Written testimony for Congressional Hearing on "Persistent Poverty in America: Addressing Chronic Disinvestment in Colonias, the Southern Black Belt, and the U.S. Territories"

My name is Yarimar Bonilla, I am the Director of CENTRO: The Center for Puerto Rican Studies at CUNY Hunter College, the largest research institute and archive devoted to the Puerto Rican Experience in the United States. I am grateful for the opportunity to testify today on the question of Persistent Poverty and Chronic Disinvestment in the US territories.

As the Committee memorandum notes, there are particular data challenges in regards to the US territories given the lack of current, consistent, and comprehensive data for these areas. At CENTRO we are currently working on a Dashboard featuring government-produced data across all US territories, but for today my remarks will be mostly focused on Puerto Rico.

I. What does Persistent Poverty mean in the context of the US Territories?

This testimony was prepared collaboratively with scholars and students at the Center for Puerto Rican Studies at Hunter College.[1] When our team met to produce this text one of the first questions a student in our working group asked was: *What is persistent poverty? Is this the best term to address the systemic dispossession produced by imperialism?*

The US government defines "persistent poverty counties" as those that maintained poverty rates of 20% or more for at least 30 years.[2] But the fact is that Puerto Rico has had twice that poverty rate for over half a century (See Figure 1). Indeed, all US territories are currently well over the national poverty rate (See Table 1). We must thus ask if the challenges that Puerto Rico and the other US territories face are best understood through the framework of persistent poverty, or if it is best to think of their condition as one of **systemic poverty** rooted in their political relationship to the United States.

Moreover, if the US government has recognized that a poverty rate of over 20% for three decades warrants federal action, we must ask what actions should be taken to address the historic impact of communities that have lived with over 40% poverty rate for more than three generations.

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[1] This testimony was prepared by the following team: Yarimar Bonilla, Carlos Vargas-Ramos, Jennifer Hinojosa, Kathya Severino Pietri, Jorge Soldevila-Irrizary, and Kenismael Santiago-Pagán.

[2] https://sgp.fas.org/crs/misc/R45100.pdf

Figure 1: Percentage of the Population below the Poverty Level for Puerto Rico, 1970-2021

Source: US Census Bureau, Census of the Population 1970-2000;
American Community Survey (1-yr estimates), 2006-2021

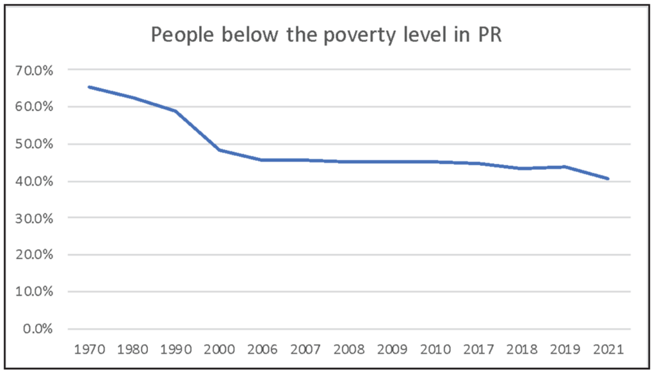


Table 1:Poverty Rates and Median Household Income for US territories

Source: US Census Bureau 2021 American Community Survey; 2020 Decennial Survey of Island Areas

	US National Average	Guam	US Virgin Islands	Northern Marianas	Puerto Rico	American Samoa
Poverty Level (%)	12.8%	20.2%	22.8%	38%	40.5%	54.6%
Median Household Income ($)	$69,717	$58,289	$40,408	$31,362	$22,237	$28,352

Puerto Rico has the second highest poverty rate of any US jurisdiction, with the exception of American Samoa (54.6%), and the absolute lowest median income of any jurisdiction at $22,237. **We ask the members of the committee to pause for a moment and contemplate how one might live on an annual income of $22,237.**

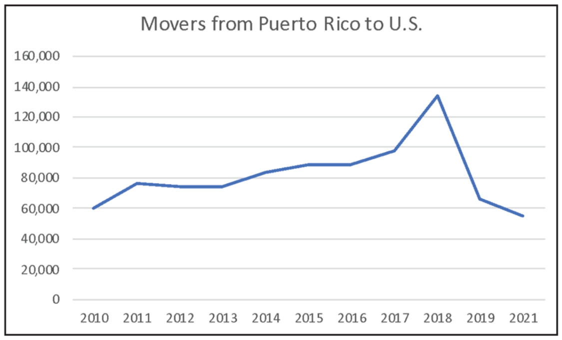
Some might assume that these depressed incomes are tied to a lower cost of living, but the fact is that rent, mortgage, and utility burdens are all higher in Puerto Rico than in the states (see Table 2).

Table 2: Cost of Living Indicators for Puerto Rico vs The General United States
Source: US Census Bureau 2021 American Community Survey (1-year estimates); Department of Energy (DOE); U.S. Energy Information Administration (EIA)
Link to Centro Tool: https://centropr.hunter.cuny.edu/tools/state-of-puerto-ricans-in-the-us-dashboard/

	US National Average	**Puerto Rico**
Rent Burden	51.1%	51.7%
Mortgage Burden	27.6%	38.1%
Energy Burden (percentage of household income towards energy costs)	2.8%	4.0%
Residential Electricity cost (as of July 2022)	15.46 cents/kWh	35.45 cents/kWh

In Puerto Rico persistent poverty has led to persistent migration: data shows that as local economic conditions worsen migration rises. From 2010 to 2011 the number of Puerto Ricans who emigrated increased from 60,000 to 75,000 a year, and then to nearly 90,000 a year by 2016 (see Figure 2). This was in direct relationship to the downturn in the Puerto Rican economy following the congressional action eliminating IRC section 936, which was sunset in 2006 and the subsequent Great Recession. In the aftermath of hurricanes Irma and Maria, more than 133,000 persons emigrated from Puerto Rico. Since then, emigration has abated to rates between 50,000 and 60,000 persons a year, presumably stymied by the COVID-19 pandemic.

Figure 2: "Movers from Puerto Rico"
Source:US Census Bureau, American Community Survey (1-yr estimates), 2010-2021
Link to Centro Tool: https://centropr.hunter.cuny.edu/tools/state-of-puerto-ricans-in-the-us-dashboard/



II. Persistent Poverty and Persistent Inequality

We would also like to point out that Puerto Rico has a higher rate of income inequality than any other US jurisdiction, with a 2021 GINI index rate of .542 compared with the national average of .485.[3] This means that the distribution of the wealth that does exist in Puerto Rico is *extremely* concentrated, resulting in widespread poverty. While many argue that the United States has an untenable distribution of wealth with only 10% of households earning over $200,000 a year, in Puerto Rico only 1.4% of households make over $200,000 a year. Meanwhile poverty is widespread: 25% (a full quarter of the population) lives with incomes of $10,000 a year or less (as compared to 6% in the general US)[4] .

Furthermore, wealth and poverty are not equally distributed geographically. As shown in figures 3 and 4, rural areas in Puerto Rico, particularly in the central and western highland regions, have disproportionate rates of poverty, with the highest incomes being concentrated in the San Juan metropolitan area.

[3] https://www.census.gov/content/dam/Census/library/publications/2022/acs/acsbr-011.pdf
[4] US Census Bureau, American Community Survey (1-yr estimates), 2021, Table CP03

Figure 3. Percent of the Population below Poverty Level by Census Tract, 2019
Source: US Census Bureau 2019 American Community Survey (5-year estimates)
Link to Centro Tool: https://centropr.hunter.cuny.edu/tools/rebuildpr-webmap/

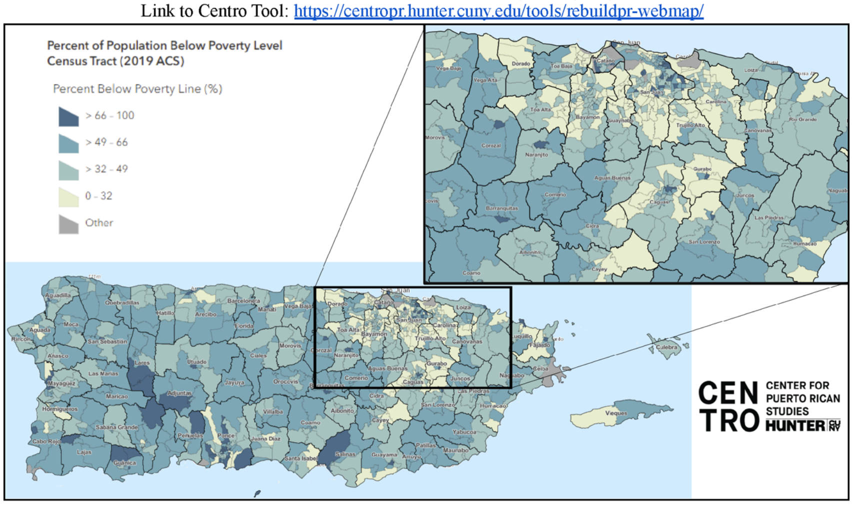
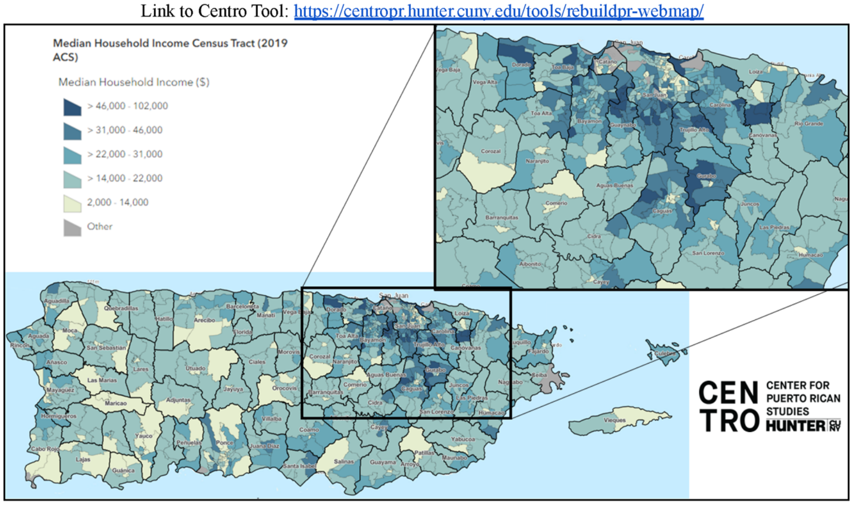


Figure 4. Puerto Rico's Median Household Income by Census Tract, 2019
Source: US Census Bureau 2019 American Community Survey (5-year estimates)
Link to Centro Tool: https://centropr.hunter.cuny.edu/tools/rebuildpr-webmap/



Sadly, those most impacted by poverty and inequality are Puerto Rico's children. Across the United States households with children are consistently the most impacted by poverty, but in Puerto Rico the rates are astronomical. Whereas in the 50 states 17% of children under 18 live below the poverty rate, in Puerto Rico a whopping 55% of children are living in poverty; this rate is 60% for rural areas.[5] **In other words, the absolute majority of children in Puerto Rico are experiencing persistent and acute poverty. A data point which we feel requires immediate attention and action.**

Moreover, while in the 50 states, only 10% of the seniors live below the poverty rate, in Puerto Rico 38% of the senior age population (65 years and over) are living in poverty (see figure 5). This also requires attention and action, as Puerto Rico's senior age population is only increasing due to low fertility rates and skyrocketing outmigration by working-age individuals seeking to escape poverty.

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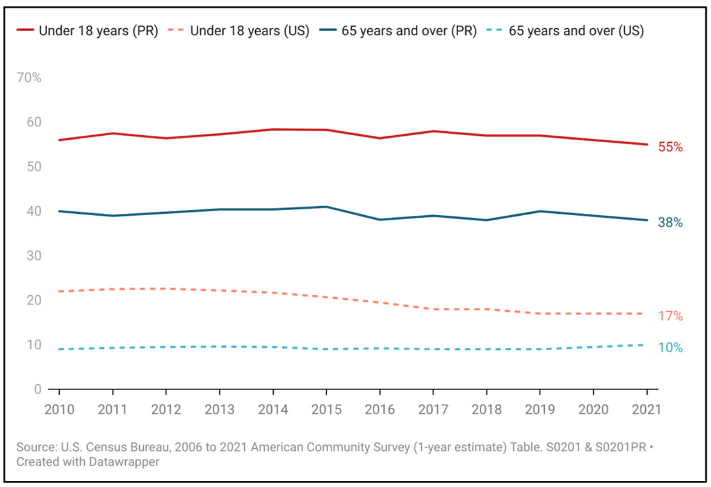
Figure 5: Poverty Rates by Age in Puerto Rico compared to US National Average
Source: US Census Bureau 2010-2021 American Community Survey (1-year estimates)



Utility and Housing Burdens

Persistent poverty and persistent inequality among Puerto Rico's households is also attributed to energy and housing burden.

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[5] Source: https://data.ers.usda.gov/reports.aspx?StateFIPS=72&StateName=Puerto%20Rico&ID=17854

According to the U.S. Energy Information Administration (EIA), as of July 2022, residential households in Puerto Rico paid 35.45 cents/kWh while the national average is 15.46 cents/kWh (Table 2). All in all, Puerto Rican households pay twice as much than U.S. residents in the 50 states (Table 2). Between 2001 and 2021 energy prices in Puerto Rico increased by 10.4 cents while in the U.S. they only increased by 3.8 cents. Following the transfer of energy distribution to a private company, Puerto Rican households have been experiencing more frequent power outages and higher energy utility bills. Thus has impacted the quality of education, healthcare, communications, and sales revenue.

Further, 38.1% of Puerto Rico's households experience rent burden (as shown in table 2) while the national average is 27.6%, a difference of 10.5 percentage points.[6] Unaffordable housing as a result of low stock of both available and affordable homes and a very slow reconstruction is a reality for many low-income families within Puerto Rico and for young adults who wish to come back to Puerto Rico. In a soon to be released study, we find that there is a positive correlation between displacement (or people moving out) in areas with high rent burden.

IV. Impact of Federal Policy on Puerto Rico's Poverty Rate

Although there is no doubt that Puerto Rico has had ongoing persistent and systemic poverty, it is important to note that there were some significant reductions in the poverty rate during the second half of the twentieth century, with the poverty rate dropping from 62% in 1970 to 48% in 2000 (see figure 6) in tandem with federal incentives for economic development. Those gains were lost once tax exemptions for US corporations were removed with the elimination of IRC section 936 and the loss of preferential access to the US market following the implementation of NAFTA/CAFTA. Both of these federal policies were implemented with no consideration of their impact on the Puerto Rican economy leading to a drastic economic downward spiral (see figure 7). These most recent policies added to a longer history of federal measures that have led to systematic poverty and dispossession in Puerto Rico. (See Appendix 1)

[6] Rent burden is defined as having to use more than 30% of income on rent.

Figure 6 Median Household income in Puerto Rico from 1980 to 2021
Source: US Census Bureau, Census of the Population 1970-2000; American Community Survey (1-yr estimates), 2006-2021

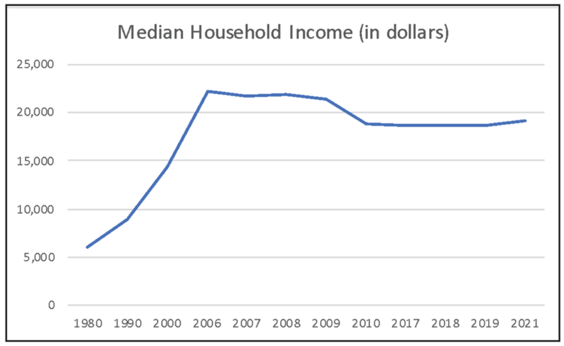
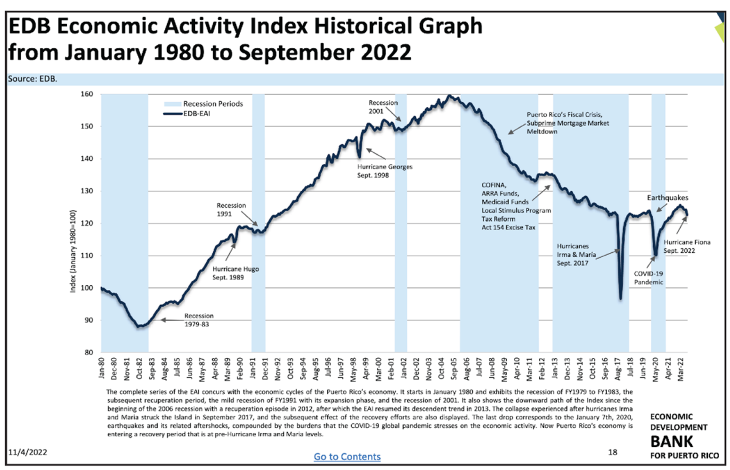


Figure 7: Puerto Rico Economic Activity 1980 to 2022
Source: Puerto Rico Economic Development Bank



By 2013 it was clear that Puerto Rico was in the midst of an economic crisis. Yet the Puerto Rican government was limited in its ability to handle the debt crisis due to the specificities of Puerto Rico's territorial status. Puerto Rico's territorial status contributed to the island's indebtment in multiple ways. Firstly, Puerto Rico's triple tax exempt bonds propelled unchecked overborrowing.[7] Secondly, the clause in Puerto Rico's federally approved constitution in 1952 set debt service as a top priority, above other public outlays and raised the limit of debt that Puerto Rico could take on.[8] Thirdly, the Puerto Rican government was written out of the US bankruptcy code without explanation in 1984 removing it from the protection offered to US states.[9] At the same time, the local government was not allowed to establish its own bankruptcy procedures.[10] Instead, the federal government passed the 2016 PROMESA law which created and imposed a Fiscal Oversight and Management Board that was excluded from requirements of conflicts of interest hearings, and for which there are no accountability mechanisms, save for congressional oversight hearings. The oversight board has focused on imposing austerity measures to address public debt that have insufficiently addressed Puerto Rico's already stark inequality and systemic poverty. In particular it has failed to recognize and protect essential services required to spur economic growth and combat poverty such as basic infrastructure and access to public education.

V. What can be done?

The U.S. Supreme Court has established (in Vaello-Madero v U.S., 2022) that congress has the power and authority to treat Puerto Rico differently than the states. Until now, this has been interpreted as a congressional right to treat Puerto Rico *worse* than a state by leaving it out of critical federal programs (such as SSI). However, Congress could just as easily lean on the territorial clause to treat Puerto Rico *better*, by addressing its particularities and the historic legacies of systemic poverty. We wish to remind the committee that equality is not the same as equity.

Puerto Rico does not merely need more congressional funds – currently many funds allocated are not being spent. Puerto Rico needs better policy and accountability. Congress needs to exercise its oversight role to critically examine the impact of the Fiscal Oversight Board it created: what has been the tangible impact and long-term consequences of the board's focus on austerity and privatization? Further, if the Fiscal Oversight Board agreed that a large portion of Puerto Rico's debt was unconstitutional, why has it not refused its payment, or at least audited it?

Further, HUD and FEMA need to account for the existing bureaucratic hurdles that have stymied the release of appropriated funds for reconstruction and resilience in P.R. in the aftermath of the natural disasters.Congress should also address the exclusion of Puerto Rico and other US territories from federal programs and legislation such as the application for Child Tax Credit and federal Earned Income Tax Credits, and Social Security benefits.

Lastly, we ask the Federal government to attend to the data gaps that hamper research on the conditions of the US territories. For example, the fact that Puerto Rico no longer participates in the American Housing Survey.

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Before the United States House Committee on Financial Services
Housing, Community Development and Insurance Subcommittee
November 15, 2022

"Persistent Poverty in America: Addressing Chronic Disinvestment in Colonias, the Southern Black Belt, and the U.S. Territories"

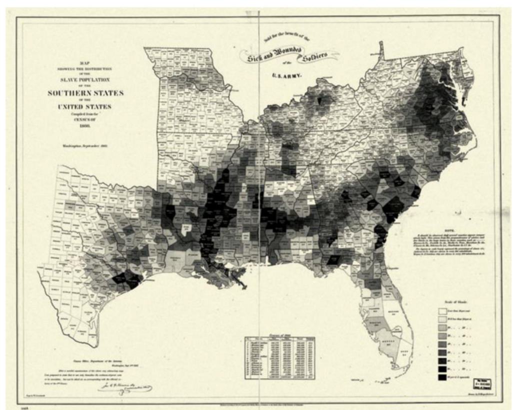
HOPE, (Hope Enterprise Corporation / Hope Credit Union / Hope Policy Institute) is a Black and women owned credit union, a non-profit loan fund, and a policy and advocacy organization. Since 1994, HOPE has worked to increase financial inclusion among the most vulnerable populations throughout the Deep South states of Alabama, Arkansas, Louisiana, Mississippi, and Tennessee – a region that is home to more than a third of the nation's persistent poverty counties, most of which are rural. From Hurricane Katrina, to the Great Recession/Housing Crisis and the current COVID19/social justice and economic crisis, HOPE has worked with government, banking, business, and community leaders to forge policies and practices that address conditions that limit opportunity for historically underserved people and places.

HOPE draws data and expertise from its work to increase access to affordable financial services for communities that are often underserved and over-looked. HOPE branches are located in areas with less public, private and philanthropic investment, with 86% of its branches located in counties where the majority of the residents are Black. A third of HOPE's 23 branches are located in persistent poverty counties, and one out of five are located in towns situated in the Mississippi Delta – three of which that have no other depository institution. Of HOPE's 35,000 credit union members, 69% have household incomes below $45,000, eight out of 10 members are people of color, and nearly half did not have a bank account upon joining the institution. Over 105,000 people live in households reached by HOPE every day. Many of HOPE members live in communities that lack high quality affordable housing, and critical community infrastructure. The needs of our communities have been neglected for generations, as reflected by the region's acute and persistent poverty, which in many places has been the case for the last five decades.[1]

HOPE imports public, private and philanthropic resources to address systemic gaps in access to capital to advance home and small business ownership and to finance vital community infrastructure in places of persistent poverty and historic underinvestment. Since inception, this approach has generated over $3.6 billion in financing that has benefitted upwards of 2 million people. Even with these outcomes, increased and sustained investment from the federal government is needed. In my testimony today, I will discuss the effects of persistent poverty in the Deep South and its effects on homeownership and community development. Organized around themes of closing the racial wealth gap, the critical importance of CDFIs and increased bank accountability, the testimony concludes with a series of policy recommendations honed from nearly 30 years of work in the Deep South Black Belt.

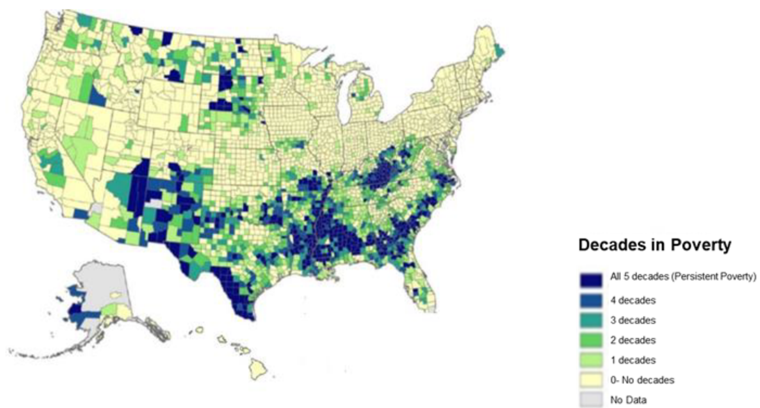
Rural Regions of Persistent Poverty Suffer from Systemic Underinvestment, Particularly Areas Home to Populations Where the Majority of People Are People of Color

Records from the U.S. Census Bureau show the highest concentration of slave holding was in the Mississippi, Arkansas and Louisiana Delta and the Black Belt counties of the Southeast. The 1860 map remains relevant today. When compared to a map that examines the length of time over which counties have had a poverty rate of over 20%, the definition of persistent poverty, it is clear that race, place, and poverty are inextricably linked (Maps 1 and 2).
Map 1: Slave Population of the Southern States of the United States (1860)



Source: Hergesheimer, E. (1861). “Map showing the distribution of the slave population of the southern states of the United States Compiled from the Census of 1860”. Washington, Henry S. Graham. Map. Retrieved from the Library of Congress, https://www.loc.gov/item/99447026/.

Map 2: Counties with Poverty Rates over 20% by Number of Consecutive Decades



Source: Rural Policy Research Institute Center for Applied Research and Environmental Studies
Persistent poverty is predominantly rural.

Of the country's 377 persistent poverty counties, where the rate of poverty has exceeded 20% for thirty years in a row, eight out of ten counties and parishes are non-metro.[2] Persistent poverty counties are also home to a diverse cross-section of people. In fact, the majority (60%) of people living in these places are people of color. Four out of ten persistent poverty counties are places where the majority of people who reside in the counties are people of color.[3] Additionally, the Housing Assistance Council finds that 1.7 million people experience poverty in rural persistent poverty areas.[4]

Persistent poverty areas experience acute challenges. At least one-third have unemployment rates over 1.5 times the national average. A "health related drinking violation" occurred in approximately 42% of the counties – nearly five percentage points higher than the rate nationally and eight out of ten persistent poverty counties are in the bottom quartile of counties in terms of health outcomes.[5]

Challenges persist in the banking system as well. Nowhere is this more prevalent than in the rural Black Belt counties in the Deep South. For example, of the 20 largest banks in the Southeast, the Federal Reserve Bank of Atlanta, found that only one bank has branches in the Mississippi Delta.[6] Bank branch access matters. Absent a physical location in the community, a bank has no obligation to lend or invest there. This means communities in banking deserts, such as those in the Deep South Black Belt, have a harder time attracting the resources needed to finance community needs such as homeownership, affordable housing, community infrastructure or other job-creating activities. Rural communities also bear the heaviest burden of bank closures which are most likely to occur in communities with a higher share of Black residents.[7]

One natural consequence of this trend is that the Deep South is home to the highest rates of unbanked households in the country. Even though nationally, the unbanked rate is the lowest it has been since the Great Recession (4.5%), households led by persons of color are more likely to be unbanked in the Deep South (14.4%). More specifically, less than a quarter (22%) of Black households in Mississippi are unbanked which is approximately five times greater than that the national rate.[8] Likewise, for rural communities, the Deep South rate (8.7%) is higher than rates nationally (Table 1). Notably, 30% of the population in rural counties in the Deep South are people of color.[9]

Table 1: 2021 Unbanked Rates for Deep South States by Race and Rural Households

	White Households	Households of Color	Rural Households
AL	1.8%	10.8%	7.3%
AR	1.3%	10.0%	2.1%
LA	3.3%	15.2%	9.3%
MS	3.5%	22.1%	15.1%
TN	2.3%	13.5%	7.2%
Deep South	2.3%	14.4%	8.7%
Nation	2.1%	9.3%	6.2%

Source: FDIC (2021). "National Survey of Unbanked and Underbanked Households". https://household-survey.fdic.gov/custom-data

For rural communities, particularly communities of color, the dearth of financial institutions presents a significant barrier to homeownership and broader economic opportunity. Three-quarters of the 158 counties nationwide that have household unbanked/underbanked rates at 1.5 times the national average are persistent poverty counties.[10] For these communities, the opportunities to become first time homeowners, access capital for home improvements, or refinancing are simply not available through mainstream financial institutions. Conversely, as the availability of bank branches increases, the cost of mortgages decreases meaning that communities with access to banking have access to not only mortgage products but affordable mortgage products.[11]

Closing the Racial Wealth Gap through Homeownership

Homeownership is critical for wealth generation. Each additional year of homeownership increases a household's total net worth an average of $13,700.[12] The median wealth of homeowners ($254,900) is more than 40 times greater than that of renters ($6,270). The median wealth gap between homeowners and renters is even starker among households of color. The median wealth of Black homeowners ($113,130) is 60 times greater than that of Black renters ($1,830).[13] Homeownership is a proven wealth acquisition instrument with research showing that even after the Great Recession, the financial returns of homeownership outperformed stocks and bonds.[14]

The wealth gap remains a significant contributor to the homeownership gap. The median wealth of a White household is $184,000 or eight times greater than the median wealth of a Black household at $23,000. [15] Due to historic patterns of discrimination and exclusion in housing opportunities the racial homeownership gap remains acute. Over three-quarters of white households are homeowners while less than half (49%) of Black households are homeowners. This disparity persists at the national level and for each state within the Deep South. See Table 2.

Table 2: Homeownership Rates in the Deep South by Race

Deep South State	Black Homeownership Rate	White Homeownership Rate	Homeownership Gap
AL	52.50%	77.10%	26.7
AR	44.60%	73.10%	25.2
LA	48.70%	78.00%	28.5
MS	53.80%	79.90%	26.1
TN	44.10%	73.90%	29.8
Deep South Region	49.30%	76.00%	26.7
Nation	44.0%	72.6%	28.6%

Source: FDIC (2021). "National Survey of Unbanked and Underbanked Households". https://household-survey.fdic.gov/custom-data

One major contributor to the gap in homeownership includes uneven access to mortgage loans. Loan denial rates illustrate the failure of financial institutions to ensure fair lending. In 2021, the percent of loan originations for Black borrowers in Deep South states substantially trailed the percent of population represented. The denial rate for black borrowers in the Deep South earning more than $150,000 was higher than for white families earning between $30-$50,000. Black Households in Mississippi have the highest mortgage loan denial rate in the country (40%).[16] This is more than twice the rate of white households. Statewide, 17% of all mortgage originations were to Black borrowers (in a state that is 36% Black); in contrast, 70% went to white households.[17] Closing gaps in mortgage lending is critical to closing homeownership gaps. Eliminating racial disparities in rates of homeownership is a critical strategy for narrowing the racial wealth gap. In fact, if policy changes resulted in equalizing homeownership rates between Black and white households in the Southeast, the wealth gap would shrink by 38 percentage points.[18]

Down payment assistance is critical to closing homeownership gaps

One policy strategy for advancing homeownership among people of color includes the funding of down payment assistance programs. Studies show that housing tenure and the wealth of parents are principal contributors to the acquisition of a home. Down payment assistance programs narrow racial gaps in access to family wealth that have been exacerbated by historical factors.[19]

HOPE has experienced the positive effects of down payment assistance programs in the advancement of homeownership opportunities among people of color through Neighborhood LIFT, a partnership with Wells Fargo and NeighborWorks America. HOPE provided down payment assistance grants of up to $10,000 to 359 Mississippians. Approximately one quarter of the mortgages originated were located in rural communities, 90% were to Black households, 63% were women headed households, all but one borrower assisted was a first-time homebuyer, and the median purchase price was $81,000. Of note, the program provided flexible down payment assistance, available to cover principal reduction or closing costs, a critical feature of the program that often meant the difference between attaining homeownership – or not.

One promising approach for targeting down payment assistance includes a focus on first generation homeowners. The Urban Institute finds that 4-8 million households of color would become first time homebuyers through a down payment assistance program structured in this manner.[20] H.R. 4495, the Downpayment Toward Equity Act, represents one of the most significant pieces of legislation crafted for meaningfully decreasing the racial wealth gap through homeownership. Through the Act, Congress would appropriate $100 billion for down payment assistance grants for first time home buyers. HUD would administer the funds which would address the intergenerational challenges of capital access for the purposes of buying a home.

Banks and credit unions must offer products that meet the unique needs of people living in rural persistent poverty communities – the secondary market must support them

HOPE offers an in-house mortgage product, the Affordable Housing Program (AHP), designed to address systemic obstacles for potential homebuyers lacking a down payment. Through the AHP, mortgages are manually underwritten, and nontraditional indicators of credit repayment history are considered. The product also discounts deferred student debt, does not require mortgage insurance, and accepts credit scores as low as 580.[21] The credit score is of significance. Borrowers in rural areas are much less likely to have the credit scores typically required from banks to qualify for affordable mortgages than their counterparts in urban areas.[22] Also, of critical importance, the AHP allows for a loan-to-value (LTV) of 100% - eliminating down payment barriers.

From 2016 – 2020, HOPE has closed 970 mortgages for $116 million. Of those mortgages, 77% by number and 76% by dollar were mortgages originated through HOPE's AHP. The AHP is one of the single most effective tools available to HOPE to build wealth in the Black community. Of the 749 AHP mortgages originated, 78% were to Black borrowers, 57% were to women led households, and 89% were to first-time homebuyers. Over this time period, HOPE's net mortgage charge offs were less than 1% and never rose above 58 basis points in a given year.

Despite this success in expanding homeownership among Black borrowers, the Government Service Enterprises (GSE's) do not purchase a mortgage with characteristics similar to the AHP. The unwillingness to offer such a product or to create a secondary market for it limits the GSE's effectiveness in playing a meaningful role in closing the racial wealth gap.

Streamline access to pandemic relief programs across the states to protect homeowners
The U.S. Treasury deployed the Homeowner Assistance Funds to the states. While the program represented an opportunity for relief for households managing the impact of economic shutdowns, challenges with each program arose in the ways Southern states deployed funds. HOPE had 43 mortgage borrowers apply for Homeowner Assistance Funds. Of the 43, 34 are from Mississippi, six from Alabama, two from Louisiana, and one from Arkansas. Implementation has varied among the states in HOPE's five state footprint. Of the states, Mississippi's Homeowner Assistance Fund was the easiest to access. In contrast, HOPE has not yet been able to get Homeowner Assistance Funds for any mortgage borrowers in Tennessee due to issues working with HOPE's contracted sub-servicer. HOPE's concerns about the program center on the uneven implementation among states with different application processes, different eligibility requirements, and different types and amounts of assistance available. Another concern includes requirements that borrowers initiate applications for the program with funds distributed on a first-come, first-served basis. Finally, while the funds have been invaluable to the HOPE borrowers able to access them, many more still need assistance. More funds to support the program would help families still dealing with the complex effects of COVID to stay in their homes.

Invest in CDFIs and Minority Depositories with Long Track Records of Reaching People of Color
Partnerships with CDFIs with long track records of reaching underserved communities and communities of color will ensure federal resources reach people and places most in need. CDFIs, long on the front lines of meeting the financial needs of underserved communities, continue to serve as important drivers of economic mobility in rural economies and among people of color. For decades, CDFIs in some of the most economically distressed regions of the country have been addressing the employment and housing, banking and infrastructure needs of local people and places. They also model solutions that work and can be brought to scale with either increased investment or replication by other actors in the financial system.

Despite evidence of success by CDFIs located in and reaching the most economically distressed communities, resource gaps exist. For example, even though minority-led CDFIs have performed better in reaching minority communities, which often have the greatest need for financial services, these CDFIs have historically had the least amount of resources to do this work. Over the last 15 years, white-led CDFIs have had a median asset size of twice that of minority-led CDFIs. In some years, it has been three times as high.[23] While CDFIs are mandated to serve low-income communities, this alone has not been sufficient to ensure CDFI lending reaches into communities of color.
Stark examples of this deficiency are evident in Mississippi, where so much of the state qualifies geographically as low-income, and nearly 40% of Mississippi's population is Black. Using 2020 HMDA mortgage lending data, HOPE found that among the 21 CDFI banks in Mississippi engaged in mortgage lending in the state, 69% of mortgage loans went to white borrowers while only 11% went to Black borrowers. This is lower than the statewide rate of mortgage originations in 2020 to Black borrowers at 16%. By contrast, Hope Credit Union made 80% of its mortgage loans to Black borrowers. Notably, many of Mississippi's CDFI banks engaged in mortgage lending include rural persistent poverty counties in their Target Markets. Similarly in Louisiana, collectively all 14 CDFI Banks reporting HMDA information made 15% of their mortgage loans to Black borrowers in 2019. However, when Liberty Bank, a minority depository institution which made 76% of its mortgage loans to Black borrowers, is excluded from the analysis, the percentage of mortgage loans to Black borrowers by CDFI Banks in Louisiana drops to 9%.

The U.S. Treasury's Emergency Capital Investment Program (ECIP), created to leverage the reach of CDFIs and Minority Depository Institutions to support small businesses, homeowners and consumers living in low-income communities, represents some of the best new thinking around the targeting of federal community development resources. First, the program was structured to foster inclusion by a range of institutions. Approximately 20% of the ECIP awards were designated for CDFIs and MDIs with fewer than $500 million in assets. The reservation of funding for smaller institutions was of particular importance for including MDIs in the program. Nationwide there are fewer than ten Black banks and credit unions with assets over the $500 million threshold. Second, the structure of the program incentivized lending to people of color. ECIP recipients pay dividends or interest to the U.S. Treasury in exchange for the long-term capital infusion. Recipients can achieve reductions in dividend or interest payments by meeting deployment goals. ECIP recipients receive double credit for the origination of mortgages to people of color and persistent poverty counties. Robust data collection and publication requirements are integrated into the program – allowing for the tracking and evaluation of the program's effectiveness in directing investment to people and places most in need. To the extent the program's outcomes align with its intended design – lessons should be learned and replicated across other federal community development grant making.

Incentivize the stacking of federal resources to rebuild the housing stock in rural communities
Throughout the Delta and Southern Black Belt, there are countless housing developments, in need of updates and repairs. In 2015, after opening a branch in Moorhead, Mississippi, a predominantly Black Delta community of slightly under 2,000 residents, HOPE began work to rehabilitate 44 homes in the subdivision of Eastmoor. The Eastmoor subdivision was built in the late 1970's just beyond the town's boundaries. After hastily constructing the development, houses were marketed to Black residents in Moorhead – to maintain a white majority in the town for the purposes of electing a white mayor. In subsequent years, substandard construction and infrastructure resulted in the seepage of raw sewage in the yards. Houses sank into the ground. Foundations shifted, opening cracks in the walls and ceilings that exposed families to the cold and rain. Some 20 homes burned to the ground or were razed. Ultimately, a lawsuit abated the sewage problem and transferred ownership of the substandard properties to the residents. Substantial redevelopment needs remained for the homes, the roads and the public spaces.

Anchored by a grant from Goldman Sachs, HOPE secured HOME funds from the Mississippi Home Corporation, the United States Department of Agriculture Rural Development and other philanthropic resources to rebuild the remaining homes in the subdivision. The Delta Regional Authority and the Community Development Block Grant program were also tapped to provide funding to address the infrastructure issues within the community.
Such an approach is one that could be replicated through partnerships between the United States Department of Agriculture Rural Development and the Department of Housing and Urban Development by directing funds through CDFIs specializing in the layering of federal funding to rebuild homes.

Expand Accountability among Financial Institutions to Ensure Equitable Access to Capital and Services
Stronger tracking and reporting mechanisms are needed to expand inclusion in LIHTC program
The Low Income Housing Tax Credit Program is one of the primary tools used by HOPE to expand the supply of high quality rental housing in rural persistent poverty counties throughout its footprint. In

total, HOPE has closed 78 permanent loans to LIHTC developments for $79.6 million, of which approximately 40% of HOPE's LIHTC lending has been in rural communities. The financing has supported the construction or rehabilitation of 3,369 units – most of which are considered small by conventional standards. The median number of units in HOPE financed properties is 44.

While the outcomes are positive, one ongoing challenge remains in the consistent lack of allocations to Black housing developers. Across HOPE's five state region, there are active LIHTC developers that receive allocations year after year. There is not a single Black developer receiving frequent and consistent awards. In light of the disparities, Congress should increase annual reporting requirements from all state housing finance agencies charged with overseeing the program. Such reports would include an accounting of allocations made by the race and gender of all LIHTC developers that receive awards to inform the development of policies that increase allocations for housing developers of color

State housing finance agencies must be held accountable for meeting pandemic recovery needs of local people

An examination of the Emergency Rental Assistance Program (ERAP) shows that state governments in the Deep South did not meet the needs of local people in the distribution of rental assistance at levels achieved across the country. The Federal Reserve Bank of Atlanta analyzed the distribution of ERAP funding by states and local governments charged with administering the program. At both points, four of the five states in HOPE's coverage area included in the analysis (AL, LA, MS, TN) lagged the national average in expending ERAP funding.[24]

Similarly, the Rental Assistance Fund was difficult to access for rural, communities of color. In its initial deployment across several Deep South states, applicants needed an email address, only had access to an online application, and lacked application assistance from the managing governmental agencies. Even after some households received support, Mississippi and Arkansas declined portions of rental assistance funds, ultimately jeopardizing the housing status of the most vulnerable households. Notably, local governments with ERAP responsibilities in the same southern states expended ERAP dollars at much faster rates and often at levels well in excess of national levels. Such findings call for increased accountability among states - particularly states with questionable track records in serving the most vulnerable populations. Accountability must extend beyond sending unspent money to other states or back to Washington, DC and include mechanisms to create consequences for state agencies when the people and communities intended to be served are not. Additionally, the strong showing by local governments administering ERAP underscores the importance and effectiveness of directing federal resources to entities closest to the ground with the mechanism to track and deploy federal dollars.

Strengthen the Community Reinvestment Act (CRA) to ensure greater equity in financial service industry among mainstream financial institutions

Traditional banks, by far, have the greatest ability to invest in ways that close the financial services gap, both directly and through investment in CDFIs. [25]One mechanism to facilitate increased investment in underserved markets by mainstream banks is through the Community Reinvestment Act (CRA), both in providing banking services to individuals as well as financing for things like affordable housing and economic development in low-income communities. At the same time, the CRA has its limits. If a bank has no physical presence in a region, then it is not held accountable for reinvesting there. As a result, entire regions, such as rural communities in and outside of the Deep South, often lie out of reach of the CRA's incentives. Another limitation, as currently structured, is that the CRA does not reach its full potential in the incorporation of race in its evaluation of bank performance; even though it was enacted to address banks' racially, discriminatory redlining practices. Currently, more than 98% of banks pass their CRA exam, despite the glaring racial and economic inequities in the banking system.

While recent changes implemented by the federal bank regulators represented a step in the right direction, the new rules remain silent on race specific metrics. Additionally, the large bank focus of the rules meant many of the banks serving rural, persistent poverty counties would not be held accountable for making CRA loans and investments and the provision of CRA services. Such limits underscore the need for comprehensive CRA reform that results in a significantly strengthened rule resulting in increased bank lending, services and investment – as much as three fold – in low-income communities and communities of color. In addition to increasing the amount of bank activity, a reformed CRA must also ensure banks are held accountable for investing in people and communities of color that have both been historically underserved and divested of their resources.[26]

Communities in America's Black Belt have long endured persistent poverty and its associated systemic challenges. However, these communities and the institutions that serve them have demonstrated the expertise and skill to solve and circumvent the effects of race and place, most often with significantly fewer resources than other parts of the country. CDFIs with track records of reaching and working in partnership with communities of color and rural communities model solutions that work. With adequate resources supporting these institutions, and increased commitment by others to do the same, it is possible to ensure prosperity and mobility in the most economically distressed communities in America's rural persistent poverty counties.

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[16] Hope Policy Institute analysis of 2021 HMDA loan origination data accessed November 9, 2022 at https://ffiec.cfpb.gov/data-browser/data/2021?category=states.

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HAC
Housing Assistance Council
We help build homes and communities across rural America.

Statement for the Record of Lance George,
Director of Research and Information, Housing Assistance Council
U.S. House Committee on Financial Services
Subcommittee on Housing, Community Development, and Insurance
"Persistent Poverty in America: Addressing Chronic Disinvestment in Colonias, the U.S. Territories, and the Southern Blackbelt"
November 15, 2022

Introduction

Chairman Cleaver, Ranking Member Hill, and members of the Subcommittee, greetings and thank you for this opportunity to testify on persistent poverty in rural America, specifically the colonias, the Black Belt, and the U.S. territories. My name is Lance George, and I am the Director of Research and Information at the Housing Assistance Council (HAC).

HAC helps build homes and communities across rural America. Founded in 1971, headquartered in Washington, D.C. and working in all 50 states, HAC is a national nonprofit and a certified community development financial institution (CDFI). We are dedicated to helping local rural organizations build affordable homes and vibrant communities. We provide below-market financing, technical assistance, training, and information services. HAC has a specific focus on high-needs rural regions and areas of persistent poverty, including rural Appalachia, Native American communities, the Mississippi Delta and southern Black Belt, farmworker communities and the Southwest border colonias. To learn more, please visit www.ruralhome.org.

HAC also produces robust research on rural housing, demographics, and poverty, with leading public and private sector institutions relying on HAC's research and analysis to shape policy. We are independent, non-partisan and regularly respond to Congressional committees and Member offices with the research and information needed to make informed policy decisions. If you need to know how a new program or policy could impact America's smallest towns, please don't hesitate to call on us. It is an honor to be here in this capacity today, on a panel with so many distinguished experts.

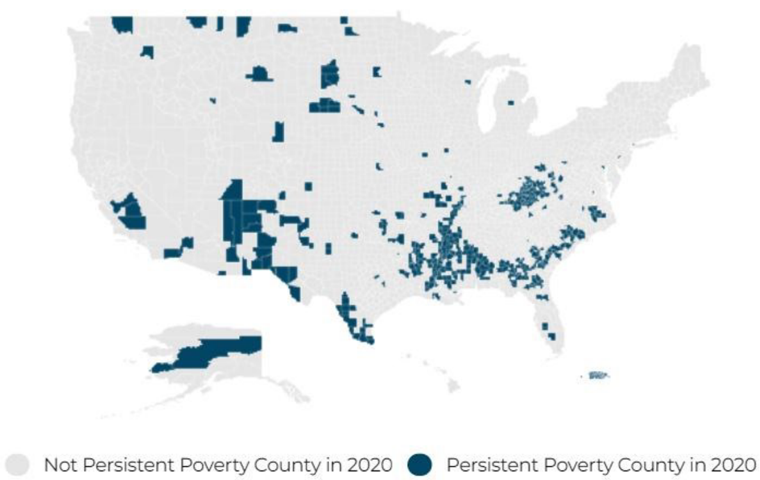
Persistent Poverty Landscape

The issue of poverty is complex, but it is much more than an abstract condition for the over 37 million Americans who face daily struggles with food insecurity, access to health care, and search for basic shelter. Poverty is often imagined as an urban issue in the national discourse, but some of the country's deepest and most persistent poverty can be found in rural areas. Identified as "Persistent Poverty Counties," these communities are generally rural, isolated geographically, lack resources and economic opportunities, and suffer from decades of disinvestment and double-digit poverty rates.

Persistently poor counties are classified as having poverty rates of 20 percent or more for three consecutive decades. Using this metric, HAC estimates there were 377 persistently poor counties in 2020 using data from the Census Bureau's 2016-2020 American Community Survey, the 2006-2010 American Community Survey, and the 2000 Decennial Census of Population and Housing.[1] For the first time, HAC also calculated persistent poverty status for Puerto Rico. All 78 of Puerto Rico's Municipios (county equivalents) were classified as having persistent poverty status as of the 2020 data. With the island territory included, there are a total of 455 Persistent Poverty Counties.[2] The map below shows Persistent Poverty Counties in 2020 in blue.

Persistent Poverty Counties, 2020

Counties with 20% or higher poverty rate in 2000, 2010, and 2020



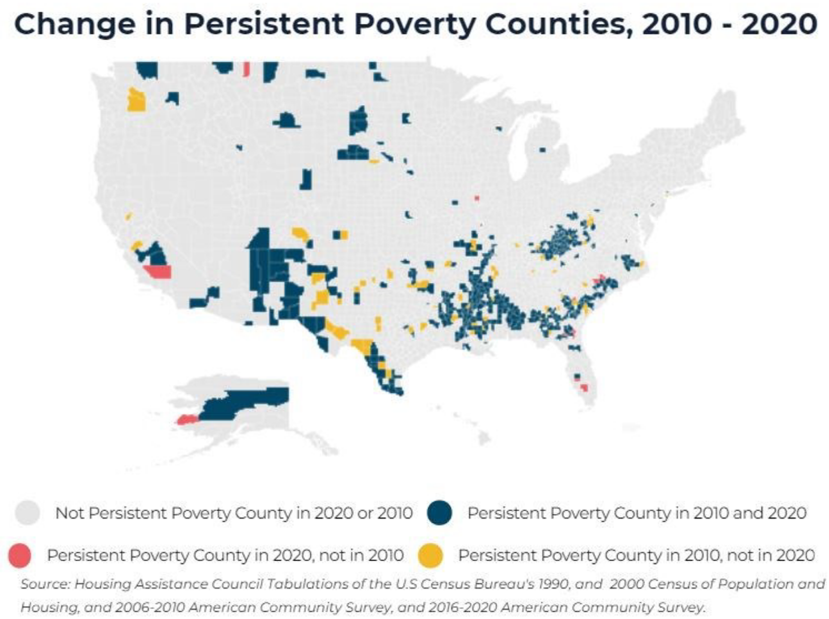
Source: Housing Assistance Council Tabulations of the U.S Census Bureau's 2000 Census of Population and Housing, 2006-2010 American Community Survey, and 2016-2020 American Community Survey.

Between 2010 and 2020 the overall number of Persistent Poverty Counties declined, but some counties were added to the list. The number of Persistent Poverty Counties declined from 433 in 2010 to 377 using the 2020 data. Overall, 70 counties moved off the persistent poverty list while 13 counties that were not classified as having persistent poverty in 2010 reached that threshold in 2020. Three-hundred and sixty-three counties were classified as persistently poor in both 2010 and 2020. One of the initial findings from the new analysis is the continuation of many counties

[1] Housing Assistance Council, Rural Research Brief, "The Persistence of Poverty in Rural America," April 2022, https://ruralhome.org/wp-content/uploads/2022/04/rural-research-brief-persistent-poverty-2021.pdf.

[2] Ibid.

classified with persistent poverty status. Approximately 78 percent of Persistent Poverty Counties in 2020 have been in this status consistently since 1980. The map below shows the change in Persistent Poverty Counties from 2010 to 2020. Yellow counties are those that left the Persistent Poverty County list in 2020 and the pink counties are those that were newly added.



One of the consistent features of many Persistent Poverty Counties is their clustering within several rural geographic regions that have a large footprint over the United States. Persistent Poverty Counties make up one-tenth of all U.S. counties, or county equivalents, and 15 percent of the U.S. landmass. They are concentrated in rural regions, including the Mississippi Delta or Black Belt, central Appalachia, and Native lands. Sixty percent of people living in Persistent Poverty Counties are people of color and 42 percent of Persistent Poverty Counties have majority populations of color.[3]

In terms of rural and urban communities, approximately 81 percent of Persistent Poverty Counties are located outside of OMB defined metropolitan areas, a geography often used as a proxy for rural areas. Overall, there are 1.7 million people experiencing poverty in rural Persistent Poverty Counties. While the vast majority of these counties are rural, most of the population in poverty in Persistent Poverty Counties are located in metropolitan areas. Of the 4.6

[3] Partners for Rural Transformation, "Persistent Poverty in America," accessed November 9, 2022, https://www.ruraltransformation.org/persistent-poverty/.

million persons with below poverty incomes in these areas, nearly 3 million, or 64 percent, live in metropolitan areas. This incongruity is partially explained by the existence of several high-population Persistent Poverty Counties such as Bronx County, NY, Philadelphia County, PA, Baltimore City, MD, St. Louis County, MO, and Hidalgo County, TX. These five generally urbanized counties alone have approximately 1.2 million residents in poverty.

One highly visible impact of this economic distress can be seen in these areas' housing conditions. The incidence of housing units lacking adequate plumbing is twice the national rate, and over 380,000 households in Persistent Poverty Counties live in crowded conditions. Additionally, while housing costs are relatively low in many of these communities, more than half of Persistent Poverty County renters encounter affordability problems and are considered housing cost burdened (defined as paying more than 30 percent of income in rent).[4]

Mortgage and housing finance are similarly unbalanced in persistently poor communities. Mortgage activity including applications and loan originations are substantially low in many Persistent Poverty Counties. Likewise, more than one-quarter of mortgage applications were denied in these communities – more than six percentage points higher than the national rate. And when loans are made in persistently poor communities, they tend to have higher interest rates. The level of 'high-cost mortgages[5]' in these counties is two-thirds higher than the rate than for all mortgage loans in the United States.[6]

Colonias

In the United States, the term "colonias" has been applied generally to unincorporated communities located in California, Arizona, New Mexico, and Texas along the U.S.-Mexico border that are characterized by high poverty rates and substandard living conditions. In practical terms, colonias are defined primarily by what they lack, such as potable drinking water, water and wastewater systems, paved streets, and conventional mortgage financing.

Despite being categorized together, colonias vary extensively within the border region, from small clusters of homes located near agricultural employment opportunities to established communities whose residents commute to nearby urban centers.[7] The U.S. poverty rate is an estimated 15 percent, while the aggregate colonias poverty rate (using HAC's definition of colonias, which we will discuss later in this testimony) is nearly twice that national rate at 27 percent. Colonias have varied histories. Some emerged in the last 50 years, but others have been in existence since the 19th century. The unmet need for affordable housing was a key factor

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[4] Housing Assistance Council tabulations of the U.S. Census Bureau's 2016-2020 American Community Survey.
[5] A higher-priced mortgage loan is defined by the Consumer Financial Protection Bureau as a consumer credit transaction secured by the consumer's principal dwelling with an annual percentage rate that exceeds the average prime offer rate for a comparable transaction as of the date the interest rate is set by 1.5 or more percentage points for loans secured by a first lien on a dwelling, or by 3.5 or more percentage points for loans secured by a subordinate lien on a dwelling. *(Home Mortgage Disclosure Act /Section 226.35(a) of Truth in Lending Act (Regulation Z)*)
[6] Housing Assistance Council tabulations of Consumer Financial Protection Bureau 2021 Home Mortgage Disclosure Act data.
[7] Guillermina G. Núñez-Mchiri, "The Political Ecology of the *Colonias* on the U.S.-Mexico Border: Human-Environmental Challenges and Community Responses in Southern New Mexico," *Journal of Rural Social Sciences* 24, no. 1 (2009): 67-91, 70, https://egrove.olemiss.edu/jrss/vol24/iss1/5/.

driving the demand for homes in colonia developments in both recent and historic colonias.[8] Various other factors led colonia development within each border state. The increased visibility of colonias in Texas, however, tends to guide common perceptions and even government policy based on the situations of colonias found there.[9]

Colonias largely resulted from lax land regulations.[10] For much of the 20th century, county governments lacked the power to regulate the subdivision of land that lies outside the jurisdiction of city governments. Without these controls in place, landowners were able to subdivide and sell their property through a range of methods without the necessary infrastructure.[11]

Also impacting the proliferation of colonias, particularly in Texas, was the contract for deed system. Through a contract for deed, the buyer makes payments directly to the developer while the land title remains with the developer until the amount is paid in full. These arrangements often involve high interest rates, and many are not recorded with the county clerk.[12] If even one payment is missed, the developer may foreclose on a property and the buyer loses his or her entire investment.[13]

A variety of settlements have been designated colonias in Arizona, California, and New Mexico, including those on Native American lands, in old mining towns, and in retirement communities. Colonias in Arizona, California, and New Mexico are generally older than those found in Texas.[14] In Arizona, "wildcat" subdivisions emerged in the 1950s and differ in several ways from patterns for Texas's colonias. Many New Mexico colonias have been in existence since the mid-1800s, and all California colonias were developed prior to 1929, when subdivision laws went into effect in that state.[15] Additionally, New Mexico's historic settlements are experiencing new fringe growth in the form of illegal subdivisions similar to those created in Texas under contract for deed arrangements.[16]

Colonias have substantially lower rates of conventional mortgage lending compared to nearly any market in the border region or nationwide. To make lending activity comparisons, HAC

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[8] Federal Reserve Bank of Dallas, *Texas Colonias: A Thumbnail Sketch of the Conditions, Issues, Challenges and Opportunities* (Dallas: Federal Reserve Bank of Dallas, n.d.), https://www.dallasfed.org/~/media/documents/cd/pubs/colonias.pdf.

[9] Vinit Mukhija and Paavo Monkkonen, "Federal Colonias Policy in California: Too Broad and Too Narrow," *Housing Policy Debate* 17, no. 4 (2006): 755-780, 756, https://www.tandfonline.com/doi/abs/10.1080/10511482.2006.9521589.

[10] Angela Donelson and Esperanza Holguin, "Homestead Subdivision/Colonias and Land Market Dynamics in Arizona and New Mexico," *Memoria of a Research Workshop: Irregular Settlement and Self-Help Housing in the United States* (Cambridge, MA: Lincoln Institute of Land Policy, 2001), 39-41, https://www.researchgate.net/publication/283151396_Memoria_of_a_Research_Workshop_Irregular_Settlement_and_Self-Help_Housing_in_the_United_States.

[11] Jean W. Parcher and Delbert G. Humberson, "CHIPS: A New Way to Monitor Colonias Along the United States-Mexico Border," U.S. Geological Survey Open-File Report 2007–1230, https://pubs.usgs.gov/of/2007/1230/pdf/OFR2007-1230.pdf.

[12] Federal Reserve Bank of Dallas, *Texas Colonias.*

[13] Parcher and Humberson, "CHIPS."

[14] Donelson and Holguin, "Homestead Subdivision," 39-41; Mukhija and Monkkonen, "Federal Colonias Policy in California," 757.

[15] Núñez-Mchiri, "Political Ecology," 70; Mukhija and Monkkonen, "Federal Colonias Policy in California," 766.

[16] Donelson and Holguin, "Homestead Subdivision," 39-41.

analyzed lending activity as the number of loan originations per thousand owner-occupied homes. The amount of lending in colonias – using owner-occupied units to standardize the measure – is half the rate of the larger U.S.-Mexico border region. Loan activity is nearly three times lower in rural colonias compared to the larger border region, according to Home Mortgage Disclosure Act (HMDA) data.

Additionally, manufactured homes are an important part of housing in both the border region as a whole and colonias in particular. A review of HMDA data finds that loans involving manufactured homes represent a relatively large share of lending in rural areas in general and are even more prevalent in colonias. Approximately 15 percent of all home loan originations in rural colonias involved a manufactured home, which is more than twice the percentage for rural areas in general.

To address the poverty and lack of infrastructure present in communities along the border and to target funding to these areas, several federal agencies and policymakers have developed geography-based definitions of colonias over time. These governmental definitions vary, and the criteria of what exactly constitutes a colonia continues to be challenging.

In 2020, HAC developed the concept of "Colonias Investment Areas" to improve comprehensive understanding and definition of colonias for the purpose of home mortgage finance.[17] The ultimate goal of this research was to create a usable and programmatic definition of colonias so that mortgage and finance resources may be more efficiently directed to these often overlooked and long-struggling communities.

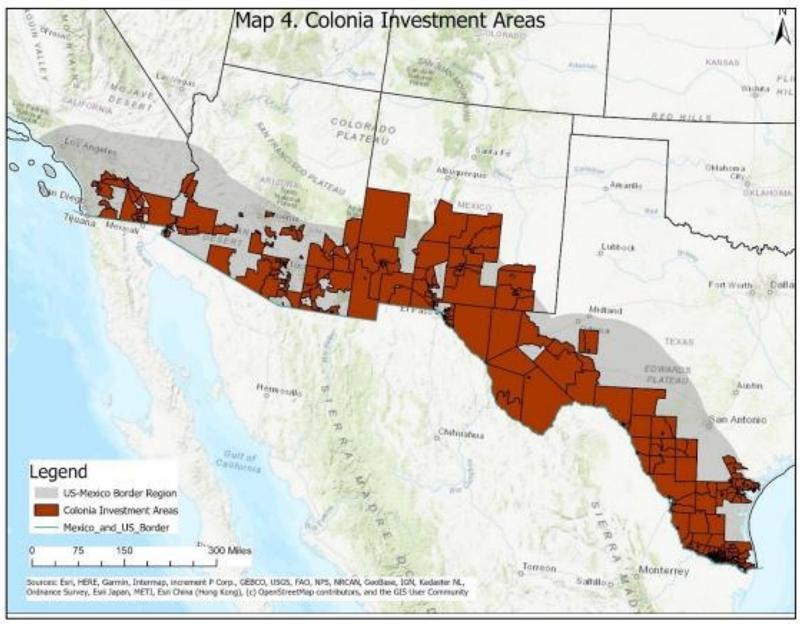
The Colonias Investment Areas concept relies primarily on the U.S. Census Bureau's census tract designation as the geographic unit of analysis. Census tracts are small, relatively permanent statistical subdivisions of a county or equivalent entity. The approach to developing Colonias Investment Areas and determining which census tracts contain colonias involved six basic processes:

1. Identification: Create a universal list of officially recognized colonias from existing lists of colonias established by federal, state, tribal, or local governments.
2. Location: Geolocate the recognized colonias records on a map, using census blocks.
3. Aggregation: Aggregate the identified census blocks into tracts.
4. Compilation: Consolidate disparate data into one uniform Colonias Investment Area database.
5. Exploration: Conduct preliminary analyses to better understand basic social, economic, housing, and mortgage finance elements of the constructed Colonias Investment Areas and compare them to larger regional and national dynamics.
6. Feedback: Obtain expert and stakeholder feedback on the concept of Colonias Investment Areas.

The map below shows in brown what areas are captured by HAC's Colonias Investment Area definition.

[17] Housing Assistance Council, *Colonias Investment Areas: Working Toward a Better Understanding of Colonia Communities for Mortgage Access and Finance* (Washington, DC: Fannie Mae, 2020), https://ruralhome.org/reports/understanding-the-colonias-investment-areas/.

The Federal Housing Finance Agency (FHFA) has proposed to adopt a new definition of "colonia census tracts"[18] that is modeled after HAC's Colonias Investment Areas definition – a move which we applaud. We support the streamlining of this definition across federal programs.



Southern Black Belt

The Southeastern region of the United States has been shaped by rich and unique geographies, cultures, and social and economic systems over the past several hundred years. For generations, the land has provided a way of life that has meant different things to different people. For some, these resources have brought economic prosperity and for others, economic exploitation. The result is a land of two distinct cultures: one reflecting the interests and needs of the haves and one for the have-nots. It is a region that still bears the legacy of a deep racial divide and clearly illustrates the irony of extreme poverty in a land of abundant riches.

A significant challenge to housing wealth in the Southeast region is the issue of heirs' properties. Because Black families were excluded from federal, financial, legal, and housing systems, some

[18] Federal Housing Finance Agency, "Enterprise Duty to Serve Underserved Markets Amendments," Notice of Proposed Rulemaking, *Federal Register* 87, no. 192 (October 5, 2022), 60331-60338, https://www.federalregister.gov/d/2022-21404.

developed their own methods of generational land control that did not include established wills or other means of estate transfer through the legal system. An heirs' property occurs when the owner of a property dies without a will. The rights to the property transfer to the deceased's heirs over generations. Residents of heirs' properties are unable to access legal and financial systems because they do not hold clear legal title. They are also ineligible for insurance and disaster recovery aid. These properties can be vulnerable to exploitation from development corporations.

The path toward identifying and resolving issues with heirs' properties must include systemic changes and individualized assistance. While one-on-one aid to assist families in clearing their titles is essential, meaningful and sustainable change must include policy improvements and allowances for residents of heirs' properties to access emergent capital and services. The path towards resolving this issue begins with opportunities to identify and provide aid to heirs' property owners. Various organizations and researchers have identified regional methodologies for estimating the magnitude of heirs' properties. HAC, in collaboration with partners, is conducting a substantial effort to help better understand this long overlooked issue and solutions for remedying it.

U.S. Territories

Rural areas comprise 97 percent of the nation's land mass and are spread across a vast and diverse set of communities. These areas include homes and populations in often overlooked U.S. territories. It is also often difficult to assess housing and economic conditions in these territories due to limited and infrequent updated public data. Several entities and agencies provide quality data on demographics and federal resources. Good examples include data collection and presentation by the U.S. Census Bureau and USDA's Rural Development agency.

Throughout HAC's history, we have provided both technical assistance and lending in the U.S. territories. Following the 2020 Census, for the first time, HAC calculated persistent poverty status for Puerto Rico. As mentioned earlier, all 78 of Puerto Rico's Municipios (county equivalents) were classified as having persistent poverty status as of the 2020 data. One ongoing example of HAC's work in the territories, and of the innovation and vibrancy inherent to these communities, is the reimagining of the Frederiksted Fish Market in the U.S. Virgin Islands. This creative placemaking project is funded through the Citizens' Institute on Rural Design (CIRD), a leadership initiative of the National Endowment for the Arts. HAC is working with Clean Sweep Frederiksted, a community economic development nonprofit focused on Frederiksted's historic district, to design a fish market concept that meets the practical needs of local fishers while recognizing the historical significance of a gathering space that has been a focal point of the community's deepest sorrows and greatest triumphs for generations.[19]

HAC encourages the Subcommittee to investigate and help advance data collection and information in the territories so that entities at all levels can better understand the often-unique dynamics there and develop strategies and solutions appropriate for these communities and their residents.

[19] Citizens' Institute on Rural Design, "Fish Market Revitalization in Frederiksted, VI," accessed November 10, 2022, https://www.rural-design.org/workshops/frederiksted-vi.

Challenges and Opportunities in Addressing Persistent Poverty

Persistently poor rural communities all face unique regional and local challenges and have unique local assets, strengths, and opportunities. To combat geographic inequality and its attendant downsides, HAC recommends proactively considering geographic factors in federal policymaking. In our experience, and given the persistent poverty landscape outlined above, there are two critical factors necessary to build equity in persistently poor rural places: local organizational capacity and access to capital. Additionally, tailoring of federal resources and improving the reliably and availability of rural data would improve equity for Persistent Poverty Counties.

Capacity Building

Federal investment in capacity building launched almost every successful local and regional housing organization that we know today. However, very few of those local organizations are in rural regions. Fewer still work in areas of persistent rural poverty. The power of capacity building in rural communities cannot be overstated. Rural communities often have small and part-time local governments, inadequate philanthropic support and a shortage of the specialists needed to navigate the complexities of federal programs and modern housing finance. Targeted capacity building through training and technical assistance is how local organizations learn skills, tap information, and gain the wherewithal to do what they know needs to be done. Rural places need increased capacity building investment in order to compete for government and philanthropic resources. Without deeply embedded, high-capacity local organizations, available federal funding and other capital will never evenly flow to persistently poor rural communities.

Access to Capital

In recent decades, many rural regions have been stripped of their economic engines, financial establishments, and anchor institutions. Persistently poor areas are often characterized by a history of extractive industry. The result is that Persistent Poverty Counties face a dire lack of access to capital. Without access to financial services and capital, individuals cannot access safe credit and financial literacy resources, businesses cannot grow and serve the needs of their communities, and ultimately the communities' economies cannot thrive. The banking industry has undergone considerable consolidation, with the number of lenders insured by the Federal Deposit Insurance Corporation (FDIC) dropping from approximately 15,000 in 1990 to fewer than 5,000 in 2022. There are around 150 rural counties that have one or no bank branches to serve their residents. Building access to capital in underserved rural regions is critical for the equity and long-term viability of rural communities.

HAC supports systems such as the Community Reinvestment Act and Duty to Serve requirements, which encourage traditional lenders to meet local needs, and we also support provision of alternative financing options. For example, community development financial institutions (CDFIs) are private, mission-focused financial institutions that offer responsible, affordable lending to low-income, unbanked and underserved people and communities. For more than 30 years, CDFIs have had a proven track record of making an impact in the most high-needs rural regions. As banks have consolidated and pulled back from serving the deepest pockets of poverty, CDFIs have stepped into the breach and are working in rural regions and Tribal areas across the country to address the financial services needs of otherwise unbanked communities.

Tailoring of Federal Programs

Often, federal housing programs are not well-suited to function in the rural, persistent poverty context. Capacity challenges make it difficult for rural places to compete for funding with larger metropolitan areas. Additionally, available data on rural areas is often partial and inaccurate, making it difficult to define the true need. Public and private funding naturally flows to the highest capacity, simplest to serve communities, so HAC encourages proactive consideration of persistently poor communities in the federal policymaking process. Tools like Congressman Clyburn's "10-20-30" formula,[20] which would direct 10 percent of funding for specific federal programs to Persistent Poverty Counties, can help level the playing field.

One specific policy that could have positive impacts for persistently poor rural communities is the creation of a program to improve manufactured housing opportunities. Manufactured homes are a too often overlooked and unfairly maligned component of our nation's housing stock. The physical quality of manufactured housing has improved substantially in recent years and continues to progress due to responsible regulation and advances in technology. However, the basic systems by which these homes are sold, financed, managed, and insured are still often problematic and in need of improvement to ensure that manufactured homes are a reliable affordable housing option for sometimes vulnerable populations.

There are approximately 6.7 million occupied manufactured homes in the United States, comprising about 6 percent of the nation's housing stock. More than half of all manufactured homes are located in rural areas around the country and manufactured homes make up 13 percent of all occupied homes in rural and small-town communities.[21] Although the demographics of manufactured housing are changing, lower-income households still occupy the majority of this stock. Underserved and persistently poor populations like farmworkers and those living in Native American communities also disproportionately utilize manufactured homes as a source of affordable housing.

HAC supports the creation of a manufactured housing program and has been glad to see the bipartisan support for this issue in the House Fiscal Year 2023 Transportation-HUD appropriations bill.

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[20] Congressman James E. Clyburn, "10|20|30 Persistent Poverty Formula," accessed November 10, 2022, https://clyburn.house.gov/10-20-30-amendment.

[21] Housing Assistance Council, Rural Research Brief, "Manufactured Housing in Rural America," July 2020, https://ruralhome.org/wp-content/uploads/2021/05/Manufactured_Housing_RRB.pdf.

Data Reliability

A lack of available data to conduct assessments on the effectiveness of a particular program or regulation in persistently poor rural places is a constant challenge – obscuring the realities of rural needs and corresponding federal responses. Without that data access, the scape of informed stakeholder engagement is limited.

For example, the 2020 Home Mortgage Disclosure Act (HMDA) final rule[22] gutted housing data collection in rural communities, especially those that are already underserved by traditional financial services. The Consumer Financial Protection Bureau (CFPB) increased the threshold for reporting data about closed-end mortgage loans, allowing institutions originating fewer than 100 closed-end mortgage loans in either of the two preceding calendar years to not report such data effective July 1, 2020. It has also raised the threshold for reporting data about open-end lines of credit to 200 open-end lines of credit effective January 1, 2022, upon the expiration of the previous, temporary threshold of 500 open-end lines of credit. This regulation will have a disparate impact on rural areas, which rely disproportionately on small financial institutions, and will also limit data availability for stakeholder engagement.

Since the 1980s, HAC has prepared a research publication titled *Taking Stock* every ten years following the release of decennial Census data. In the next few months, HAC will be releasing our newest iteration of this publication looking at rural people, poverty, and housing trends from the 2020 Census. We look forward to sharing this resource with the Subcommittee when it becomes available.

Conclusion

Persistent poverty is a too-little-discussed condition in our country, and HAC appreciates the Subcommittee's interest in this topic. It is something that has been core to our mission for the last five decades. HAC looks forward to continuing our work with Congress and the federal agencies to support the Subcommittee's efforts. Thank you again for the opportunity to testify today.

[22] Bureau of Consumer Financial Protection, "Home Mortgage Disclosure (Regulation C)," *Federal Register* 85 no. 92 (May 12, 2020), 28364-28407, https://www.govinfo.gov/content/pkg/FR-2020-05-12/pdf/2020-08409.pdf.

TESTIMONY OF CHRIS POTTERPIN, PRESIDENT
COUNCIL FOR AFFORDABLE AND RURAL HOUSING (CARH)

"PERSISTENT POVERTY IN AMERICA: ADDRESSING CHRONIC DISINVESTMENT IN COLONIAS, THE U.S. TERRITORIES AND THE SOUTHERN BLACK BELT"

SUBCOMMITTEE ON HOUSING, COMMUNITY DEVELOPMENT AND INSURANCE
COMMITTEE ON FINANCIAL SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

November 15, 2022

Chairwoman Waters, Ranking Member Hill, and members of the Committee, on behalf of the Council for Affordable and Rural Housing (CARH), we would like to submit written testimony in support of efforts to address chronic disinvestment in the Colonias, the Southern Black Belt and the U.S. Territories. CARH focuses on housing investment and providing affordable housing and that will be the focus of my testimony.

CARH is an industry trade association with headquarters in Alexandria, Virginia, representing the interests of for-profit and non-profit builders, developers, management companies, and owners, as well as financial entities and suppliers of goods and services to the affordable rental housing industry in rural America. My company, PK Companies, based in Okemos, Michigan develops, manages, and owns thousands of affordable housing units across the country. I am also the current President of CARH.

Affordable Rural Rental Housing Is A Necessity

Throughout, the Colonias, the U.S. Territories, and the Southern Black Belt, and other rural areas throughout the country, there continues to be an overwhelming need for both affordable and decent housing. The lack of affordable housing reflects the lack of investment in these localities more broadly. Rural renters are more than twice as likely to live in substandard housing compared to people who own their own homes. With lower median incomes and higher poverty rates than homeowners, many renters are simply unable to find decent housing that is also affordable. While the demand for rental housing in rural areas remains high, the supply, particularly of new housing, has decreased. The adverse effects of housing instability on the education and health of this country's greatest asset, our children, has been well documented. Neither the private nor the public sector can produce affordable rural housing independently of the other; it needs to be a partnership. There are several areas within the rural housing arena that Congress and the Administration should urgently consider as discussions continue on the infrastructure needs of rural communities. And, as our colleagues and CARH member, the Housing Assistance Council (HAC) has researched, these issues are even more acute in the Colonias, the Southern Black Belt and the U.S. Territories. For example, we note HAC's Rental Housing for a 21st Century Rural America at https://ruralhome.org/reports/rural-america-is-losing-its-affordable-rental-housing/ .

Key Tools - Rural Development Rental Housing Programs and the Housing Credit Program

The United States Department of Agriculture's (USDA)/Rural Development (RD) Section 515 rural multifamily housing and Section 514 farm labor multifamily properties are a lynchpin for addressing affordable rural housing needs—both through preservation of those diminishing portfolios and through the need for new production funding and investment. Rental assistance under the Section 521 Rental Assistance (RA) program is essential for many family and elderly households residing in rural America. At the same time, most federally supported multifamily properties are 35+ years old and need modernization. These properties have suffered from federal funding shortages and statutory and regulatory barriers that make recapitalization either difficult or impossible.

Rural housing development and investment is largely dependent on only a few sources of funding for construction and preservation of the existing housing stock. The Low-Income Housing Tax Credit (Housing Credit) program is certainly a vital source for this important housing. The Housing Credit program has worked successfully since its creation in 1986. It helps to bridge the gap between what the market provides and what the market demands. In short, America's elderly, working families, civil servants, and working poor seek to live in or near their jobs, families, and communities. In much of rural America, this need cannot be met due to the lack of affordable housing options. Homeownership is often either out of reach or not financially viable. Furthermore, the cost of providing any new housing or rehabilitating existing housing to current standards without public-private assistance results in rents or other homeownership costs that are simply too expensive for most low-income Americans. In contrast, the Housing Credit program allows non-profit and for-profit companies to work together with local and state governments to raise private equity and to help bridge the financial gap. In turn, the savings are passed on to the residents in the form of lower rents and affordable rental housing. Approximately 43% of Section 515 properties are financed with Housing Credits.

Already Losing Valuable Affordable Housing

The existing rural multifamily programs were never intended as a one-time capitalization for low-income housing. The original intent was to allow properties to refinance out of the program and provide a market centric nucleus of decent housing in rural areas. In fact, USDA originally required owners to refinance out of the program at the first opportunity. However, the federal government changed the laws, rules, and basic operations when it changed the federal tax code, withdrew prepayment rights, and reduced Section 515 funding without any replacement mechanism.

In order to save the Section 515 program and its sister Section 514 farm labor housing program, RD's current demonstration efforts have shown preservation can be successful but the number of properties able to be preserved with current resources will nowhere near achieve portfolio-wide preservation in any reasonable time period.

The Section 514 and 515 portfolios are by and large more than 30 years old and at risk of becoming obsolete. In 2002, RD estimated that 4,250 Section 515 properties with 85,000 units "will physically deteriorate to the point of being unsafe or unsanitary within the next 5 years." At that time, RD estimated it would need $850 million to maintain just this portion of the portfolio, and that as much as $3.2 billion will be required for portfolio-wide rehabilitation. Overall, little progress has been made since 2002. Adjusted for inflation and continued obsolescence, the 2002 $3.2 billion estimate is now approximately $5.6 billion, and growing each year that aging assets are not rehabilitated. In 2016, RD contracted for its own updated capital needs study, which confirmed the existence of significant and continued deferred maintenance. At this current rate of affordable housing properties exiting the program, we encourage the prioritization of the preservation of existing properties ahead of new construction, as it is much more cost effective to complete a substantial rehabilitation compared to the cost of building new.

Maturing mortgages have overtaken prepayments as the most pressing issue. According to RD, approximately 77 properties with 1,759 units are maturing out of the mortgage programs over the next 18-24 months, and that number will only significantly increase past 2027. When a 514/515 mortgage ends, whether through prepayment or foreclosure or maturity, the Section 521 RA also ends, exposing below-market residents to market rents and turning assisted properties into market-rate properties. In 300 counties, Section 515 properties are the majority of project-based federally subsidized units and 90% of all Section 515 properties are in counties with persistent poverty.

Recommended Approaches to Help with Recapitalization and Preservation

CARH has several legislative recommendations that, working with RD and Congress, will help expand tools available to RD in preserving this much needed and at-risk housing.

Rental Assistance—An Essential Program

The Section 521 Rental Assistance (RA) program is an essential component of the Section 514/515 programs. RA provides deep subsidy to very low-income residents by paying the difference between 30 percent of a resident's income and the basic rent required to operate the property, subsidizing 63 percent of Section 515 units. The RA program must continue to provide sufficient funds for both current levels of RA and sufficient additional RA to support increasing program costs. RA budgets have been constrained for the last few years, even before the sequestration issues impacting the program at the end of Fiscal Year (FY) 2013. Historically, RA budgets on a per unit basis are about *half* of other rental subsidy programs. Much of that has been achieved by delaying needed repair and operating funds.

According to RD, the average household income in rural housing properties is $14,665 and the average income of RA households is $12,501. RA is sorely needed for these low-income residents. Indeed, there is more need than there is rental subsidy. Even though most RD properties receive either RA or the U.S. Department of Housing and Urban Development (HUD) subsidy through Section 8, many properties and residents do not. As many as 41,589 families in RD programs have no rent subsidy, and yet are so extremely low income that RD still considers them to be rent overburdened.

CARH supports full funding of all RA contracts, with specific direction to expend all funds each year. RD should also be instructed to use any funds available after RA renewals and all recaptured RA for affordable housing preservation. The Administration's proposed budget would fund the Section 521 RA program at **$1.602 billion**, an increase from **$1.45 billion** in FY 2022. The **$1.602 billion** funding would be allocated as follows: **$1.564 billion** for existing RA contracts, including the **$100 million** in RA that was added in the American Rescue Plan; **$40 million** that would carry over into FY 2024 (a policy that CARH has supported that ensures that funds are available for RA contracts funded in the first few months of a new fiscal year, should a full year appropriation bill not be completed); **$38 million** for Section 542 rural housing vouchers (moved from the Multifamily Housing Preservation and Revitalization demonstration program account to RA); and **$6 million** for RA that would be available for new Section 515 housing.

Over the next decade, as much as three-quarters of all Section 515 mortgages will mature, and with it the end of related Section 521 RA contracts, stranding approximately 250,000 families and elderly persons and leaving them without the ability to house themselves. Under current law, when a Section 515 mortgage expires, Section 521 RA also expires. There is no budget authority to replace these mortgages. The budget also includes statutory language that will address some of the maturing mortgage issues facing the portfolio in the next several years. The language would provide RD with authority to decouple RA from the Section 515 program, allowing RD to continue offering RA to certain properties that no longer have a Section 515 loan. Currently, with RA tied to the Section 515 loan, in order to protect residents to the maximum extent, owners have to run through the complex processing of RD mortgage loan assumption, even when it makes little financial sense to maintain the Section 515 loan. While decoupling the Section 521 from the Section 515 loan is different than what HUD calls decoupling, it would put the RA contracts on the very logical path to being an important preservation tool. **CARH supports S. 4872, Strategy and Investment in Rural Housing Preservation Act of 2022, that has been introduced by Senators Jeanne Shaheen (D-NH) and Tina Smith (D-MN) that would permit the permanent decoupling of Section 521 RA from the Section 515 loan, thus allowing RA to continue to protect residents and fund affordable housing past the expiration or prepayment of the multifamily mortgage loan. CARH also supports companion legislation H.R. 1728, also entitled Strategy and Investment in Rural Housing Preservation Act, introduced by Representative Cynthia Axne (D-IA).**

Furthermore, the Administration's FY 2023 budget also includes the important concept of decoupling RA but it does not include language that was included in the FY 2022 appropriations that would allow for RA contracts to be 20 years, subject to annual appropriations. CARH has supported this 20-year provision, but thus far RD has not implemented it. RA contracts tend to be less well known to non-Section 538 lenders and to Housing Credit equity providers and the one-year term is often an issue. RD's consistent funding has been a strong due diligence point for lenders and investors. However, it isn't lost on developers that these financing entities price in the costs of risk and due diligence, increasing costs of development, much of which could be solved with the 20-year subsidy contract like HUD uses. **CARH supports including again language renewing RA contracts for 20 years, subject to annual appropriations**.

A Substantial portion of Section 515 properties also have project-based Section 8 subsidy and residents with tenant-based Section 8 housing choice vouchers. **CARH also supports a strong project-based and tenant-based set of Section 8 programs.**

The Traditional Programs Work—We Need a Preservation RA Designation

The traditional rural rental housing and rent subsidy programs work and work as a program that can attract other forms of public and private assistance. But Congress needs to be clearer and instruct RD to use financing on hand, specifically Section 521 RA for preservation. In past years when Congress specifically provided funding for preservation, RD processed that specific amount. Without that clarity, the last two Administrations have allowed other priorities, including holding on to reserves of RA, to take priority over preservation transactions. While we welcome a greater appropriation of RA, more important than even that is a specific direction to RD to spend all funds on hand each fiscal year.

Continue Efforts to Modernize the Housing Credit

Rural housing construction and preservation projects have access to only a few funding sources. The Housing Credit program is a vital source for this important housing. The Housing Credit program is narrowly targeted and represents the best of the public-private partnership between government, local communities, and the private sector. The program is the most successful affordable rental housing production program and its place in the tax credit code is an essential part of its long-term success. Indeed, the Housing Credit has been so successful that it has become the model for subsequent programs.

Since its inception in 1986, the Housing Credit program has created homes for approximately 2.4 million families. For each 100 apartment units, 116 jobs are created, generating more than $3.3 million in federal, state and local revenue. This important housing resource creates a positive, broad-based economic benefit that includes jobs (particularly construction jobs), income and taxes in industries such as manufacturing, trade, and services, in addition to construction. Income includes business profits as well as wages and salaries paid to workers. Affordable housing not only creates jobs directly, but also facilitates job growth. Affordable housing shortages prevent workers from meeting job demand in rural areas with limited housing options.

Affordable Housing Credit Improvement Act

CARH believes it is critical that both the Housing Credit and Housing Bond programs continue and that legislative proposals to modernize the Housing Credit and Housing Bond programs like the Affordable Housing Credit Improvement Act, H.R. 2573 introduced by Representative Suzan DelBene (D-WA-1) and companion legislation S.1136 introduced by Senator Maria Cantwell (D-WA) should be enacted into law. While we understand that this Committee does not have jurisdiction with tax measures, your support is paramount to further strengthening and expanding the Housing Credit and Housing Bond programs so that rural housing preservation and new construction can take place. The bills would increase the housing credit authority by 50%, phased in over two years. In addition, states would have the ability to provide up to a 30% basis boost to properties in rural areas if needed for financial feasibility by qualifying rural areas as Difficult Development Areas (DDAs). Both provisions are integral to furthering preservation for the rural housing portfolio.

Community Reinvestment Act

CARH seeks a community development investment test that preserves the importance of participation in the Housing Credit. The Housing Credit's efficacy is at risk today due to two well-meaning changes currently contemplated. One change is the modernization of the Community Reinvestment Act (CRA). There is a general notion in the housing and banking industries that the 1970s-era CRA needs a 21st Century makeover. As fair as that may be, the current proposed changes issued jointly by the banking agencies present certain problems. Large banks are the key purchasers of Housing Credits, and the proposed CRA rules convert the existing three-part test for large banks to a combination of retail and community development tests.

Global Minimum Test

If the 15% global minimum tax were put in place, it would remove a major portion of the value of the Housing Credit. We understand that Treasury Assistant Secretary for Tax Policy Lily Batchelder shared in remarks to the D.C. Bar Association that "...because of the way [general business credits] are structured and accounted for, the income or loss and the income tax consequences of those investments typically will be excluded from the effective tax rate calculation — so those credits generally should not be impacted." This is good news, but it is an informal policy statement only. CARH supports a formal codified position that the Housing Credit, which creates a public benefit of affordable housing, will not be impacted by the Global Minimum Tax.

Preservation of the Existing Multifamily Mortgage Portfolio

The rural multifamily programs were never intended as a one-time capitalization of low-income housing. The original intent was to allow properties to refinance out of the program and provide a market centric nucleus of decent housing in rural areas—indeed USDA originally *required* owners to prepay and leave the program at the first opportunity. The federal government changed the laws after the fact to remove prepayment rights to keep properties in the program but then reduced Section 515 funding without any replacement mechanism that would allow properties to function inside the program long-term.

The Section 515 direct loan program and its one percent effective interest rate provides a unique tool. The Administration has proposed $200 for the Section 515 program versus 50 million in funding in FY 2023. Ongoing funding on the current small level, at a minimum, is needed to address at least some housing finance needs in impacted communities and provide a lifeline resource to help existing properties.

In 2002, RD estimated that 4,250 Section 515 properties with 85,000 units "would physically deteriorate to the point of being unsafe or unsanitary within the next 5 years." At that time, RD estimated it would need $850 million to maintain just this portion of the portfolio, and that as much as $3.2 billion will be required for portfolio-wide rehabilitation. Little progress has been made since 2002. As was demonstrated by a report issued by RD in July 2016 entitled, "*Multi-Family Housing Comprehensive Capital Needs Assessment*," the 2002 $3.2 billion estimate is now approximately $5.6 billion. As a result, in FY2021, the Section 514 and Section 515 portfolio consisted of 13,215 apartment complexes containing 412,176 units and is decreasing every year.

Under the proposed FY 2023 budget, the MPR program would receive $75 million, an increase over the FY 2022 level of $34 million. The Administration has acknowledged that there is a need for additional money because of the backlog in commitments for the Multifamily Housing Preservation and Revitalization (MPR) Demonstration Program. **There are about four years of approved transactions either waiting to close or closing on a temporary workout status. Therefore, we continue to support efforts that would provide $1 billion for this program.** Funding for this portfolio will not only provide for the extremely low-income families and elderly residents but will also improve infrastructure and create jobs throughout rural America.

At the same time, while MPR is a good concept, it has been implemented in various ways, and many strategies have not been successful. **We continue to urge RD to schedule stakeholder meetings and again confer with the Senate Banking, Housing and Urban Affairs Committee, and the House Financial Services Committee on what has been successful and what has not worked in the rural preservation arena.**

Expanding Multifamily Loan Credit Through Section 538 Guaranteed Loan Program

CARH greatly appreciates the support shown for a fee-based, revenue neutral Section 538 Guaranteed Rural Rental Housing program. We believe that the Section 538 is proving to be an important housing tool, at no cost to the government. There are also multiple regulatory changes that CARH has requested of RD which will greatly improve program efficiency. CARH further supports legislative change to prompt RD to allow the Section 538 program to be used to refinance existing mortgage loans used to pay for prior construction and acquisition costs. **CARH supports the Administration's proposal that would provide $400 million in loan authority for the Section 538 program in FY 2023**. Expanding the program will preserve the pipeline, and more than that, it will allow lenders and borrowers to look at the program as having material capacity to help expand their rural housing credit needs.

HOME Partnership Program

Also, key to rural housing recapitalization is maintenance of the HOME Partnerships program, administered by HUD. HOME uniquely empowers state and localities to respond to the housing needs they judge most pressing, allowing them to serve the whole spectrum of need from homelessness to rental to disaster recovery assistance. HOME is flexible and can be used in rural or non-rural areas.

The HOME program is a vital resource in financing numerous affordable housing developments, many of which would not be able to go forward and many of which would not provide housing for low-income families without this important program. HOME does not replace other financing resources committed to rural areas but is an important gap financing program. States and localities leverage HOME by generating almost four dollars of other public and private funding. to HUD. **CARH supports the Administration's request of $1.95 billion for program in FY 2023.**

Administrative Steps Needed

Technology Upgrades Needed for RD

Additional monies are proposed for IT upgrades throughout RD. Specifically, the last Administration's FY 2021 budget proposed $5 million for the Program Loan Accounting System and $5 million for the Automated Multi-family Accounting System. CARH continues to be supportive of RD's efforts to obtain funds to upgrade its very outdated IT systems and keep current with customer's needs.

Increased staffing for the Multifamily Housing (MHF) office

CARH strongly supports increased staff resources for RD's MHF office. The MFH staff is comprised of dedicated, committed professionals doing their best under very difficult circumstances. Our members interact constantly with the MFH staff, and it has been clear that MFH teams need additional resources to address rising workloads, retiring staff, and the increasing need for tools that will provide funding for the preservation of the existing portfolio. Staffing issues have created customer service problems vis-à-vis delays and processing inaccuracies. The mission under the MFH realignment is encouraging to us as it has introduced a number of very good, stakeholder supported process improvements. We will not realize the benefits of these efforts if staffing remains below the levels requested. We are encouraged that recently some additional staff have been added to the MFH office but understand that there remains a need for further hires. We hope that the agency will be able to employ those needed individuals in the near future.

On behalf of CARH, we again thank the Committee for this opportunity to discuss rural housing issues with you today. With a few relatively minor changes, Congress can provide the tools needed to continue the successful public/private partnership for affordable rural housing. We welcome the opportunity to work with you, RD and our fellow stakeholders to formulate such changes and improvements.

cdcb
come dream. come build.

U.S. House Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

November 16, 2022

ATTN: Subcommittee on Housing, Community Development, and Insurance
Re: Persistent Poverty in America: Addressing Chronic Disinvestment in Colonias, the Southern Black Belt, and U.S. Territories.

Dear Committee Members:

cdcb | come dream. come build. is the largest provider of affordable housing in Texas. Most of our work is done in areas of persistent poverty, including colonias, along the U.S.-Mexico border. We thank you for the opportunity to provide written testimony on the causes of persistent poverty and leverage our decades of experience in this field to speak to how best address chronic disinvestment and the obstacles to wealth building in our region.

First, it is important to understand that persistent poverty is a choice of public policy. It is neither accidental nor incidental. Persistent poverty exists in places with historical legacies of economic extraction: Appalachia, the Black Belt and Mississippi Delta, Indian Country, the rural west, and South Texas. Failing to acknowledge this history maintains a public policy of disinvestment; this is a choice which takes many forms including a general lack of prioritization, a neglect in creating targeted funding, a disregard for holding state and local stewards of federal funds accountable, and a long-existing deficit in representation for these communities.

We applaud the committee for recognizing these shortcomings and seeking to address them. We support each of their recommendations in full including a reauthorized and streamlined CDBG program with an emphasis on housing production, a targeted set aside within the HUD CDBG program for colonia investment, more federal dollars to assist manufactured housing communities, and a significant infusion of funding for competitive HUD grants.

To further expand on these efforts and see the successful deployment of existing resources, cdcb recommends the following:

- The creation of a down payment assistance program for rural persistent poverty counties

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- The adoption of the FHFA's recently proposed colonia census tract definition across all federal agencies.
- Targeted set asides for persistent poverty counties across all federal agencies and programs
- The creation of a congressional persistent poverty caucus

Rural Persistent Poverty Down Payment Assistance

Kiyadh Burt from the Hope Policy institute gave a powerful testimony to your committee regarding the power of down payment assistance in persistent poverty communities. cdcb seconds this position and, with our experience, can corroborate his testimony on the effectiveness of these programs in communities that otherwise lack investment. Between 2018 and 2022, cdcb utilized down payment assistance to help over 150 families achieve homeownership. Not only does home ownership build the wealth of individual families, a larger share of homeowners in a given community attracts outside investment and generates much needed economic activity in persistent poverty counties. Down payment assistance dollars are an investment with plentiful returns in the form of better outcomes in the realms of health, education, and local government revenues.[1]

Unfortunately, the amount of available down payment assistance dollars, be it from private or public sources, has dwindled in recent years. At cdcb we have seen down payment assistance dollars available to our clients decline by over 50% over the last year. This is at a time when the cost of homeownership is rising. Over the last two years median home sales prices have increased in our region by 25%. Such increases in price, coupled with rising interest rates, have locked first-time homeowners out of the market, as evidenced by the near total evaporation of entry-level home sales.[2] There must be a federal effort to address this full-fledged housing crisis as in the current market conditions, the problem will only continue to grow. No greater investment multiplier exists than home ownership and so down payment assistance has the potential to supercharge the prospect of wealth building for persistent poverty communities.

Adoption of the FHFA's Recently Proposed Colonia Census Tract Definition Across All Federal Agencies

The main advantage of using colonia census tracts to identify and verify colonias is that doing so achieves stability in methodology while maintaining flexibility to adapt to evolving geographies. This is no small feat: As fundamentally ad-hoc communities, informally self-built by people pushed to the margins, colonias defy concrete definition. For decades federal policy makers have attempted to define colonias, unsuccessfully chasing evolving contexts. This new approach stands to finally solve this problem and should be expanded across all federal agencies including HUD, USDA, and Treasury.

[1] Our methodology, which conservatively estimates an uptick in consumer spending per household for each new homeowner, projects an increase of nearly $1.3 million dollars in economic activity generated by the down payment assistance provided during this period.

[2] For price increases and entry-level home market activity see Texas A&M University Texas Real Estate Research Center, Housing Report for Brownsville-Harlingen, September 2022. See also: cdcb, Housing Issues in the Rio Grande Valley, October 2022.

In addition to the stability and flexibility of the colonia census tract method, it is also accurate. In surveying the colonias of south Texas, we have determined that the census-tract method delivers laser focused concentration on colonias even when they are surrounded by mixed-income non-colonia communities. Cameron Park, the largest colonia in the United States, is in Cameron County. With a population of a little over 7,000 residents and a median household income of $31k, it is now encircled by residential tracts incorporated by the city of Brownsville with median household incomes of $82k.[3] Despite their proximity, none of the relatively high-income incorporated areas would fall under a colonia census tract in the proposed methodology, proving its efficacy in directing resources to where they are most needed.

Additionally, the new methodology incorporates census tracts that contain colonias into the rural area definition. This enables federal entities to fund and program accurately around the lived experiences of these communities. Regardless of their physical location in relation to metropolitan areas, colonias embody a rural existence. From infrastructure to economic outlook, any list of characteristics comparing colonias to rural regions feature stark similarities.[4] Over the last 20 years, as metropolitan areas expanded and encircled colonias, local governments chose not to incorporate them. Cut off from municipal services, colonias were denied integration into the surrounding economy, thereby stranding these impoverished communities in what are effectively archipelagos of rural poverty. Achieving unity on the federal definition of colonia across agencies taps these communities into a suite of federal programs that would enable true integration of colonias into surrounding economies.

Targeted Set-Asides for Persistent Poverty Counties Across All Federal Programs

We applaud the proposal to create targeted set-asides in HUD's CDBG program and call for expanded efforts across all federal agencies to bring matching intentionality to their programming. Disinvestment in persistent poverty communities cannot be addressed in a one-size-fits-all manor and these areas lack the resources to consistently get what they need from one collective bucket. Federal dollars are a market inducement in regions that do not receive investment from other sources. As your witnesses testified, private lending in persistent poverty communities is minimal and philanthropy does little to fill funding gaps. The Rio Grande Valley receives only $52 per

[3] Household Income Data and overall population by census tract pulled from www.policymap.com.

[4] Lance George and Keith Wiley, *Colonia Investment Areas: Working Towards a Better Understanding of Colonia Communities for Mortgage Access and Finance*, Housing Assistance Council, November 2020, 21.

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capita in philanthropic support compared to the national average of $452.[5] Federal investment is the only pathway to inducing the kind of change making liquidity in our underserved communities. Adding the specificity of set-asides will generate investment in areas that otherwise do not receive these dollars efficiently.

Persistent Poverty Caucus

To better represent and serve persistent poverty counties, we request the creation of a congressional persistent poverty caucus. The ability to coordinate legislative goals and bring together members from each party to collaborate on solutions to persistent poverty would be a tremendous boost to all the aforementioned objectives. Increased exposure to the concerns of the communities comprising the truly forgotten America carries with it immense bipartisan potential. For any congressperson willing to take leadership on this issue we pledge our full support in organizing such a caucus and supplying needed policy background to inform their efforts.

Conclusion

Thank you again to the Financial Services Committee for bringing attention to the phenomenon of persistent poverty in America. Specifically, we appreciate the Subcommittee on Housing, Community Development, and Insurance for holding its hearing on Persistent Poverty and lifting the voices of leading researchers and practitioners on this subject. We look forward to supporting further efforts to address these issues and promoting the solutions suggested by the committee and its participants.

Sincerely,

Nick Mitchell-Bennett
Executive Director
cdcb | come dream. come build.

[5] National Committee for Responsive Philanthropy and Grantmakers for Southern Progress, *As the South Grows*, 2016-2017. See also: *Partners for Rural Transformation, Transforming Persistent Poverty In America: How Community Development Financial institutions Drive Economic Opportunity*, 2020.

United States Government Accountability Office

Report to Congressional Addressees

July 2020

TARGETING FEDERAL FUNDS

Information on Funding to Areas with Persistent or High Poverty

GAO-20-518

July 2020

TARGETING FEDERAL FUNDS

Information on Funding to Areas with Persistent or High Poverty

GAO Highlights

Highlights of GAO-20-518, a report to congressional addressees

Why GAO Did This Study

The "10-20-30 formula" has been applied to appropriations for some federal programs since 2009. It requires that agencies use at least 10 percent of designated program funds in counties that have had poverty rates of at least 20 percent over the last 30 years (also known as "persistent-poverty counties").

Legislation proposed in 2019 (H.R. 2055) would apply the formula to more programs for funds appropriated over the next 10 years. It also would require these programs to increase funding in "high-poverty areas"— census tracts with a poverty rate of at least 20 percent over the last 5 years. GAO identified 247 programs across 14 agencies that may fall within the scope of this bill.

GAO was asked to review federal funding allocated to persistent-poverty counties and high-poverty areas. This report examines (1) characteristics of areas with persistent or high poverty, and (2) the percentage of funds that programs included in H.R. 2055 used in persistent-poverty counties and high-poverty areas in fiscal years 2017-2019.

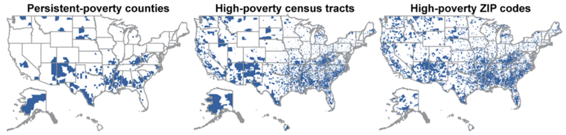
GAO analyzed Census data and publicly reported federal spending data in USAspending.gov.

View GAO-20-518. For more information, contact William Shear at (202) 512-8678 or shearw@gao.gov.

What GAO Found

As of 2017, persistent-poverty counties were predominantly rural and more frequently located in the South than in other regions. GAO identified 409 persistent-poverty counties (13 percent of all counties), roughly 50 percent of which were rural. In contrast, high-poverty census tracts—which represented 28 percent of all census tracts—were frequently urban (74 percent). Publically reported federal spending data do not include census tracts. GAO determined that ZIP codes were the best available substitute, and 77 percent of high-poverty ZIP codes overlapped with a high-poverty census tract.

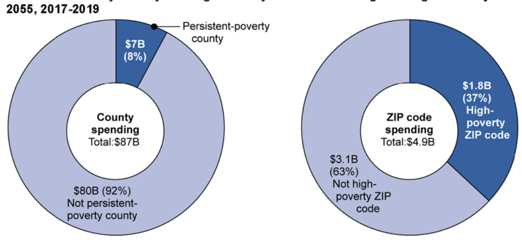
Persistent- and High-Poverty Geographic Areas



Source: GAO analysis of Census data. | GAO-20-518

Of the 247 programs potentially subject to H.R. 2055, 114 (accounting for $87 billion in spending) had sufficiently complete county-level data in USAspending.gov. In fiscal years 2017–2019, agencies used 8 percent of funds in persistent-poverty counties under these programs (see fig. below). Individual agencies' funding levels varied, but agencies used less than 10 percent of funding in persistent-poverty counties under 68 programs (60 percent of programs with sufficient data). This included 27 programs that did not have any funds used in these areas. Fewer programs had sufficiently complete ZIP code-level data (46 programs, accounting for $4.9 billion in spending), but agencies used higher percentages of funds in high-poverty ZIP codes (37 percent) under these programs.

Persistent-Poverty County and High-Poverty ZIP Code Funding for Programs Subject to H.R. 2055, 2017-2019



Source: GAO analysis of Census and USAspending.gov data. | GAO-20-518

Contents

Figures

Abbreviations

ACS	American Community Survey
CFDA	Catalog of Federal Domestic Assistance
DATA Act	Digital Accountability and Transparency Act
FFATA	Federal Funding Accountability and Transparency Act of 2006
GSA	General Services Administration
OMB	Office of Management and Budget
SAIPE	Small Area Income and Poverty Estimates
USDA	Department of Agriculture

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July 16, 2020

Congressional Addressees

Research has suggested that geographic areas with poverty rates of 20 percent or higher experience systemic problems, such as higher levels of crime and school dropouts and longer durations of poverty for their residents. Therefore, some policy interventions target funding at the community-level rather than at the individual- or household-level. One example of such a policy is the "10-20-30 formula," which generally requires federal agencies to use at least 10 percent of funds for certain programs in counties with poverty rates of at least 20 percent over the last 30 years (also known as "persistent-poverty counties"). The formula was first required under the American Recovery and Reinvestment Act of 2009—which applied it to certain appropriations for Rural Development programs in the Department of Agriculture (USDA)—and aimed to target funding to persistent-poverty counties without increasing spending.[1] Recent appropriations laws also have applied the 10-20-30 formula to appropriations for selected programs in the Departments of Commerce and Treasury, and the Environmental Protection Agency.[2]

A federal bill introduced in April 2019 (H.R. 2055) would, if enacted, expand the group of programs subject to the formula over the next 10 years.[3] This proposed legislation further requires federal agencies to increase funding levels for projects in "high-poverty areas," which are

[1]Legislation applying the 10-20-30 formula have used different data sources to determine which counties meet the "persistent-poverty county" threshold. For example, the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115, defined persistent-poverty counties as those with poverty rates of at least 20 percent over the previous 30 years as measured by the 1980, 1990, and 2000 decennial censuses, while some provisions of the Consolidated Appropriations Act, 2017, Pub. L. No. 115-31, 131 Stat. 135, also added the 2007–2011 American Community Survey 5-year average. American Recovery and Reinvestment Act of 2009, § 105, 123 Stat. at 127; Consolidated Appropriations Act, 2017, § 750, 131 Stat. at 177.

[2]Consolidated Appropriations Act, 2017, 131 Stat. at 228, 331, 474; Consolidated Appropriations Act, 2018, Pub. L. No. 115-141, 132 Stat. 348, 444, 540, 667; Consolidated Appropriations Act, 2019, Pub. L. No. 116-6, 133 Stat. 13, 138, 143, 239; Consolidated Appropriations Act, 2020, Pub. L. No. 116-93, 133 Stat. 2317, 2431, 2439 (2019); and Further Consolidated Appropriations Act, 2020, Pub. L. No. 116-94, 133 Stat. 2534, 2720 (2019).

[3]"An Act Targeting Resources to Communities in Need," H.R. 2055, 116th Cong. (2019). H.R. 2055, § 3.

defined as census tracts with a poverty rate of at least 20 percent during the prior 5 years.[4] Specifically, agencies must increase funding by 5 percent of the program's average total loan and grant funds awarded during the prior three fiscal years and then use at least that increased amount of program funds appropriated over the next ten years in high-poverty areas.

In a provision in the Explanatory Statement related to the Consolidated Appropriations Act, 2020 and a separate letter from the Majority Whip in the House of Representatives, you asked us to determine the extent to which funding for federal programs has been allocated to persistent-poverty counties and high-poverty areas in the three most recent fiscal years.[5] This report provides information on (1) the location and characteristics of counties and areas with persistent or high poverty and (2) the percentage of program funds used in persistent-poverty counties and high-poverty areas for programs described in H.R. 2055 in fiscal years 2017–2019.[6]

To identify counties with persistent poverty and areas with high poverty, we analyzed U.S. Census, American Community Survey (ACS), and Small Area Income and Poverty Estimates (SAIPE) data. For persistent-poverty counties, we used the 1990 and 2000 decennial censuses and the 2017 SAIPE to identify counties with actual or estimated household poverty rates of 20 percent or higher in all three datasets. For high-poverty areas, we used the 2013–2017 ACS 5-year estimates to identify census tracts and ZIP codes with household poverty rates of at least 20 percent over those years.

To describe the characteristics of persistent-poverty counties and high-poverty census tracts and ZIP codes, we analyzed 2017 ACS data on population, race, and ethnicity and used USDA measures of urban development. We used ACS data to estimate the proportion of county, tract, and ZIP code populations that belonged to a racial or ethnic minority group. We used two USDA measures to determine the proportion of counties, census tracts, and ZIP codes that were "urban," "suburban," and "rural."

[4]H.R. 2055, § 4.

[5]165 Cong. Rec. H10613, H10961 (daily ed. Dec. 17, 2019).

[6]We considered data to be sufficiently complete for the purposes of this analysis if 90 percent or more of observations in a field were present.

To determine the extent to which programs described in H.R. 2055 used funds in persistent-poverty counties and high-poverty areas, we first identified programs that may fall within the scope of the bill. Based on the bill's definition of "development programs," we used program and agency-specific documents, the System for Award Management, and other publicly available federal sources to identify relevant programs.[7] We then matched the programs with their Catalog of Federal Domestic Assistance (CFDA) numbers, which can be tracked in federal spending data.[8]

To calculate the percentage of funds these programs used in persistent-poverty counties and high-poverty areas in fiscal years 2017–2019, we used USAspending.gov data on funding awards, accessed between February and March of 2020. Because of the large number of programs to which H.R. 2055 refers, we relied on publicly reported federal spending data to conduct our analysis and did not consult with the federal agencies that implement these programs to obtain their perspectives or review any additional data sources they may maintain. We plan to conduct future work to examine how some agencies implemented the 10-20-30 formula in the past. We reviewed laws and regulations relevant to the reliability and validity of location-related data elements in USASpending.gov, and spoke with officials from the Department of the Treasury and the General Services Administration (GSA)—the agencies responsible for maintaining prime award data and subaward data, respectively—about their data validation procedures for ensuring data submissions contain required information. Based on these steps, we determined that USAspending.gov data were sufficiently reliable to provide information on the amount of funds agencies have allotted to persistent-poverty counties and high-poverty areas.

[7]The *Assistance Listings* website is available at: https://beta.sam.gov. The website is currently in a beta state but it is the official source for assistance listings. The *Assistance Listings* website provides a list of grant, loan, and other financial assistance programs that is independent from Digital Accountability and Transparency Act reporting.

[8]The Catalog of Federal Domestic Assistance (CFDA) was a government-wide compendium of federal programs, projects, services, and activities that provide assistance or benefits to the American public. For each federal award (grant, loan, direct payment, or other form of assistance), the Federal Funding Accountability and Transparency Act of 2006 required federal agencies to report the CFDA number of the federal financial assistance program under which it was made, where applicable. FFATA, § 2(b)(1)(C). The standalone compendium was terminated in 2018, but CFDA numbers were thereafter incorporated in the System for Award Management, *Assistance Listings* website. See Public Law 98-169.

We calculated a program's total funding by summing the total obligations for grants and direct payment awards with the total loan face values for loan awards. We then used location data associated with each award to identify whether the funding was used in one of the persistent-poverty counties or high-poverty ZIP codes we identified. For each program, we calculated the amount of funding used in persistent-poverty counties and high-poverty ZIP codes, as well as the percentage of total program funding used in these areas.[9] We excluded from our analysis programs that did not have sufficiently complete data on where program funds were used at the county or ZIP code level. We limited our analysis to awards that were both obligated and had a performance period in fiscal years 2017–2019, because awards sometimes can be made in one period and performed in another. For more information on our scope and methodology, see appendix I.

We conducted this performance audit from September 2019 to July 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Data on Poverty Rates in the United States

H.R. 2055 calls for using each of the 1990 and 2000 decennial censuses, as well as the most recent SAIPE, to identify persistent-poverty counties. H.R. 2055 does not specify a data source for use in identifying high-poverty areas, but Congress's request identified the 2013–2017 ACS 5-year estimates.[10] The Census Bureau conducts the decennial census, which is a count of the U.S. population required by the Constitution. In

[9]We did not assess agencies' compliance with statutory 10-20-30 requirements because it was outside the scope of this review. Moreover, the analysis we performed may not accurately reflect an agency's compliance for multiple reasons. For example, the previous 10-20-30 requirements defined persistent-poverty counties using earlier data than those specified in H.R. 2055; therefore, the counties that would have qualified as having persistent poverty may differ from those we identified in this review. Additionally, our work examined individual programs, but statutes sometimes applied the formula to accounts or appropriations that fund multiple programs and activities.

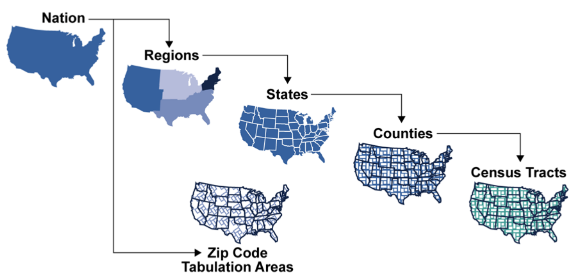
[10]As of December 2019, the Census Bureau had published the 2018 SAIPE and the 2014–2018 ACS, but because Congress's request specifies the use of the 2017 SAIPE and the 2013–2017 ACS, we used these earlier datasets in our analysis.

addition, it collects more frequent data through an annual survey of the population through the ACS. The ACS 5-year estimates represent data collected over a period of time and provide a higher level of statistical reliability for less populated areas than single-year ACS estimates. SAIPE provides model-based estimates of income and poverty for school districts, counties, and states, and the Census Bureau publishes it annually.

Geographic Divisions Referenced in H.R. 2055

Although Census Bureau data include many different geographic divisions and subdivisions, H.R. 2055 focuses on counties and census tracts. Counties are established by states and do not have a standard geographic size or population; the number of counties is not evenly distributed across states or regions.[11] Census tracts are created to have relatively similar populations, generally from 1,200 to 8,000 people. This means densely populated cities have more and smaller tracts, and rural areas have fewer and larger tracts. Census tracts are a subdivision of counties and thus do not cross county lines (see fig.1).

Figure 1: Hierarchy of Selected Geographic Entities Used by the Census Bureau



Source: GAO adaptation of Census Bureau figure. | GAO-20-518

Our analysis also includes ZIP codes because, as discussed later, they overlap considerably with census tracts and federal spending data can be

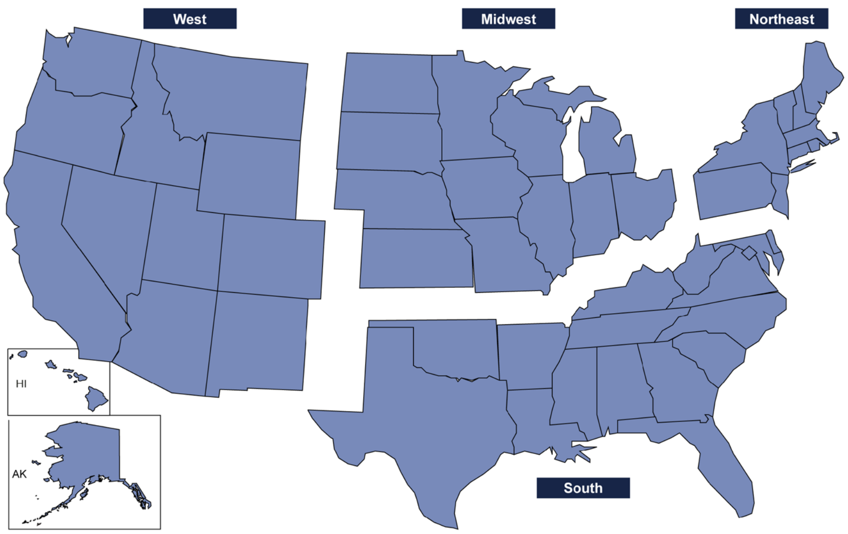
[11]While most states are divided into counties, some states are divided into parishes or boroughs. Furthermore, some U.S. cities are not legally part of a surrounding county. The Census Bureau treats each of these as county equivalents for statistical purposes. Throughout the report, we use "county" to refer to both counties and county equivalents.

determined at the ZIP code level but not at the census tract level. ZIP codes identify the post office that delivers mail to a set of addresses and may cross census tract and county boundaries.[12]

Finally, at a larger geographic level, the Census Bureau groups states and the District of Columbia into four regions: Northeast, South, Midwest, and West (see fig. 2).

[12]Spending data from USAspending.gov use ZIP codes as an element of primary place of performance. The Census Bureau created ZIP Code Tabulation Areas—which assign a geographic area to each ZIP code—for use with census data. Throughout this report, we use the term ZIP code to refer to both the 5-digit codes and the geographic areas associated with them.

Figure 2: Census Bureau Regions



Sources: GAO adaptation of Census Bureau figure. | GAO-20-518

Programs Subject to H.R. 2055

H.R. 2055 would require “development programs” to meet minimum funding requirements for persistent-poverty counties and high-poverty areas. The bill defines development programs as programs, offices, or appropriations accounts in 34 specified categories.[13]

Based on the definition in H.R. 2055, we identified 247 unique federal programs that may fall within the scope of this bill (H.R. 2055 programs). However, this list should be viewed as illustrative, rather than definitive. Due to the scope of this review, we were not able to determine the exact group of programs that would ultimately be subject to H.R. 2055. For

[13]H.R. 2055, § 2(1).

example, the scope of the development programs subject to H.R. 2055 may depend on interpretation by the implementing agencies, whose views we did not obtain. We also made certain assumptions and applied certain limitations—such as including only programs with a CFDA number—which affected the programs we identified. (See appendix I for more information about our methodology for identifying H.R. 2055 programs.)

The 247 programs we identified fell within nine departments, one agency, and four regional commissions, which we refer to collectively as agencies (see table 1).[14]

[14]App. III provides a list of the 247 programs we identified based on the definition of "development program" in H.R. 2055. Throughout this report, we use "agencies" to refer collectively to the departments, agencies, and regional commissions that implement H.R. 2055 programs.

Table 1: H.R. 2055 Programs, by Agency

Agency	Implementing bureau or office	Number of H.R. 2055 programs
Department of Agriculture	Rural Development[a]	48
Department of Commerce	Economic Development Administration	8
Department of Education	Office of Innovation and Improvement	1
Environmental Protection Agency	Office of Grants and Debarment	2
Department of Health and Human Services	Health Resources and Services Administration Family and Youth Services Bureau	81
Department of Housing and Urban Development	Office of Fair Housing and Equal Opportunity	2
Department of Justice	Office of Justice Programs Office on Violence Against Women	59
Department of Labor	Employment and Training Administration	25
Department of Transportation	Federal Transit Administration Office of the Secretary	4
Department of the Treasury	Community Development Financial Institutions Fund	5
Regional Commissions[b]	Appalachian Regional Commission Delta Regional Authority Denali Commission Northern Border Regional Commission	12
Total		**247**

Source: GAO analysis of H.R. 2055, award and grant databases, and other publically available information. | GAO-20-518

Notes: H.R. 2055 would require agencies to use at least 10 percent of funds for "development programs" in persistent-poverty counties and to meet minimum funding levels for high-poverty census tracts. In this analysis, we grouped all Regional Commissions as one "agency" due to their relative size.

[a]Rural Development includes the Rural Housing Service, Rural Utilities Service, and Rural Business Cooperative Service.

[b]H.R. 2055 identified three additional commissions not reflected in the table: the Northern Great Plains Regional Authority, the Southeast Crescent Regional Commission, and the Southwest Border Regional Commission. These commissions have been inactive and thus GAO did not identify any programs they implemented during the period under review.

These programs provided funds through prime awards (grants, direct payments, and loans) and subawards. Prime awards are funds provided directly to recipients, such as state and local governments, federally recognized Indian tribes, private for-profit and nonprofit organizations, and individuals. These recipients may provide services directly to beneficiaries, or they may act as a pass-through, re-disbursing the funds to secondary recipients through subawards using a formula or other process. Of the H.R. 2055 programs with available spending data, about 90 percent provided assistance through grants or direct payments, while about 10 percent provided assistance through loans or a combination of these. Based on publicly reported data, these programs provided a total of more than $43 billion in grants and direct payments and roughly $72 billion in loans in fiscal years 2017–2019 (about $115 billion in total funding).[15] Of the 183 grant or direct assistance programs with available spending data, 102 (56 percent) also had publicly reported data on subawards, totaling $12.1 billion in fiscal years 2017–2019.

Data on Where Federal Funds Are Used

Federal transparency laws require agencies to publicly report financial award information on the funds they obligate and expend, including the "primary place of performance" for each award, which they do through USAspending.gov. The Federal Funding Accountability and Transparency Act of 2006 (FFATA) required agencies to report information on federal awards such as contracts, grants, and loans.[16] In 2014, the Digital Accountability and Transparency Act of 2014 (DATA Act) expanded on FFATA by establishing new requirements intended to help policymakers and the public more effectively track federal spending. Specifically, the DATA Act gave the Office of Management and Budget (OMB) and Treasury responsibility for establishing government-wide financial data standards for any federal funds made available to, or expended by, federal agencies. Agencies are required to submit complete and accurate data in compliance with those standards to USAspending.gov, which is maintained by Treasury and has been the official website for reporting under the foregoing laws since 2007.

The primary place of performance data fields in USAspending.gov can be used to identify where the majority of program funds were used, but data are not available at each geographic level for all awards.[17] We previously reported that the primary place of performance data fields are particularly important to achieving the transparency goals envisioned by the DATA Act, because they provide the public with information on where the

[15]Because we focused on where funds were used, we assessed the face value of loan awards made, rather than the cost to the government of making those loans, referred to as the credit subsidy cost.

[16]Pub. L. No. 109-282, 120 Stat. 1186 (Sept. 26, 2006); Pub. L. No. 113-101, 128 Stat. 1146 (May 9, 2014) (codified at 31 U.S.C. § 6101 note).

[17]The DATA Act directed OMB and Treasury to establish data standards to enable the tracking of agency spending. Pub. L. No. 113-101, 128 Stat. 1146 (May 9, 2014).

federal government spends money.[18] For each award, agencies can report the country, state, county, congressional district, and ZIP code as primary place of performance locations, but not the census tract or street address.[19]

In some cases, agencies do not report an award's county or ZIP code, for a few potential reasons. First, Treasury officials told us that agencies could leave certain primary place of performance data fields blank for geographies they cannot specify with a single entry.[20] This can be the case, as we previously reported, when awards are used in multiple places or over large areas and agencies may not be able to pinpoint a single or precise location for the primary place of performance at a given geographic level.[21] For example, if an award had numerous performance sites across ZIP codes, none of which represented a majority of awarded funds, the agency could leave the primary place of performance ZIP code blank. Similarly, if a program award was used over a large area that crossed counties, for example to restore a watershed, the agency could leave the primary place of performance county blank. Second, in some cases (such as with direct payments to individuals), agencies cannot report an award's primary place of performance ZIP code or county because doing so could disclose personally identifying information.

USAspending.gov contains information on both prime awards and subawards, but data for prime awards and subawards do not include all of the same data fields. While agencies directly report prime award data to USAspending.gov, prime award recipients report subaward data through

[18]See GAO, *DATA Act: OMB, Treasury, and Agencies Need to Improve Completeness and Accuracy of Spending Data and Disclose Limitations*, GAO-18-138 (Washington, D.C.: Nov. 8, 2017).

[19]Initial versions of OMB guidance related to the primary place of performance data fields included street address as a required element, but in response to an earlier GAO report, OMB said that this inclusion was made in error. See GAO-18-138. Some federal agencies may document the census tract where program funds are used (or a location that could be used to identify the tract), but assessing data that agencies may keep but do not publicly report was outside the scope of this study. We plan to do a follow-up study on agencies' implementation of the 10-20-30 formula, which will examine any additional data sources that agencies may maintain.

[20]For each award, agencies are required to specify the appropriate geographic level for the primary place of performance (such as multistate, statewide, countywide, or ZIP code-wide).

[21]See GAO, *DATA Act: Quality of Data Submissions Has Improved but Further Action Is Needed to Disclose Known Data Limitations*, GAO-20-75 (Washington, D.C.: Nov. 8, 2019)

the FFATA Subaward Reporting System, which GSA administers. Because this separate system does not include primary place of performance county information for subawards, these data cannot be used to evaluate the proportion of subaward funds that were used in persistent-poverty counties.

Persistent-Poverty Counties Were Predominantly Rural; High-Poverty Areas Were More Frequently Urban

Persistent-Poverty Counties Were Largely Rural, and Mostly in the South

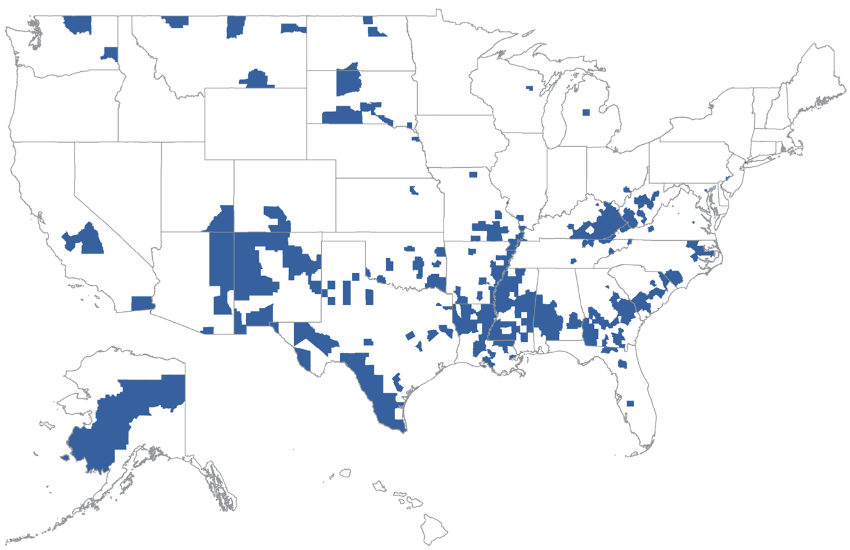
Using the data sets and standards described herein, 409 counties—13 percent of all counties—met the criteria for persistent poverty (see fig. 3).[22] Other analyses we reviewed have used different data sets and standards to determine the number of counties with persistent poverty, with results ranging from 382 to 571 counties (from 12 to 18 percent). These differences stem from changes in poverty rates over time, differences in poverty estimates among surveys, and rounding. For example, the Rural Poverty Research Center found about one-third of the 571 counties that met criteria for persistent poverty in 1990 no longer qualified in 2000 because their poverty rates had fallen below 20 percent.[23] The Congressional Research Service found that using SAIPE data rather than ACS data resulted in an average of roughly 28 more persistent-poverty counties in 2011–2017.[24]

[22]We created a confidence interval for the number of counties that qualify as having persistent poverty because the SAIPE poverty rates for each county are estimates with a margin of error. At the 90 percent confidence level, from 403 to 415 counties would qualify as persistent-poverty counties. See app. I for more information on how we created this confidence interval.

[23]Kathleen K. Miller and Bruce A. Weber, "Persistent Poverty across the Rural-Urban Continuum," Rural Poverty Research Center Working Paper, 03-01 (July 2003). The Congressional Research Service examined how the use of data from different surveys and different rounding techniques affected the number of persistent-poverty counties. See Congressional Research Service, *The 10-20-30 Provision: Defining Persistent Poverty Counties*, R45100 (Washington, D.C.: March 2019).

[24]Congressional Research Service, R45100.

Figure 3: Persistent-Poverty Counties, as of 2017



Source: GAO analysis of Census and Small Area Income and Poverty Estimates data. | GAO-20-518

As of 2017, persistent-poverty counties tended to be rural and concentrated in the South. Using USDA's Rural-Urban Continuum Codes, which distinguish counties by population size, degree of urbanization, and proximity to a metropolitan area, we found that 50 percent of persistent-poverty counties were rural, compared to 34 percent of counties overall.[25] In contrast, 16 percent of persistent-poverty counties were urban, compared to 37 percent of counties overall. The large majority of persistent-poverty counties (81 percent) were located in the South, while the Northeast had only two such counties. (See table 2 for regional and

[25]We classified counties, census tracts, and ZIP codes as either urban, suburban, or rural. See app. I for more information on our classification methodology.

demographic characteristics of persistent-poverty counties, and appendix II for more detail about their geographic distribution.)

On average, persistent-poverty counties had smaller populations than other counties, and higher shares of their residents belonged to racial or ethnic minority groups. As of the 2010 census, persistent-poverty counties had an average population of about 44,500, compared to an average of about 98,000 for all counties. Thus, while persistent-poverty counties made up 13 percent of all counties, only 6 percent of the U.S. population lived in persistent-poverty counties. Based on estimates from the 2017 ACS, roughly 62 percent of residents in persistent-poverty counties belonged to a racial or ethnic minority group, compared with roughly 37 percent of residents in other counties.[26]

While persistent-poverty counties had smaller populations on average, 10 had populations of more than 300,000, and two—Bronx County, New York, and Philadelphia County, Pennsylvania—had populations of more than 1 million as of 2010.

High-Poverty Census Tracts Were More Urban, but Are Not Identified in Federal Spending Data

As of 2017, 28 percent of census tracts met the criteria for high poverty.[27] The different standards for high and persistent poverty likely account for the higher proportion of high-poverty census tracts, compared with persistent-poverty counties (13 percent). To qualify as high-poverty for purposes of our analysis, a census tract needs only to have had an average poverty rate of at least 20 percent over the last 5 years, rather

[26]At the 90 percent confidence level, this estimate has a margin of error of plus or minus less than .01 percent. The Census Bureau defines race as a person's self-identification with one or more of the following groups: White, Black or African American, Asian, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, or some other race. Ethnicity is used to indicate whether a person is of Hispanic origin or not. We considered any person who identified as a race other than White or who identified as Hispanic to be part of a racial or ethnic minority group.

[27]Using the 2017 ACS 5-year estimates, 20,216 tracts (of 73,056 in total) had high poverty. We created a confidence interval for the number of census tracts that qualify as having high poverty because the 2017 ACS 5-year poverty rates for each census tract are estimates with a margin of error. At the 90 percent confidence level, from 20,109 to 20,323 census tracts met the standards for high poverty.

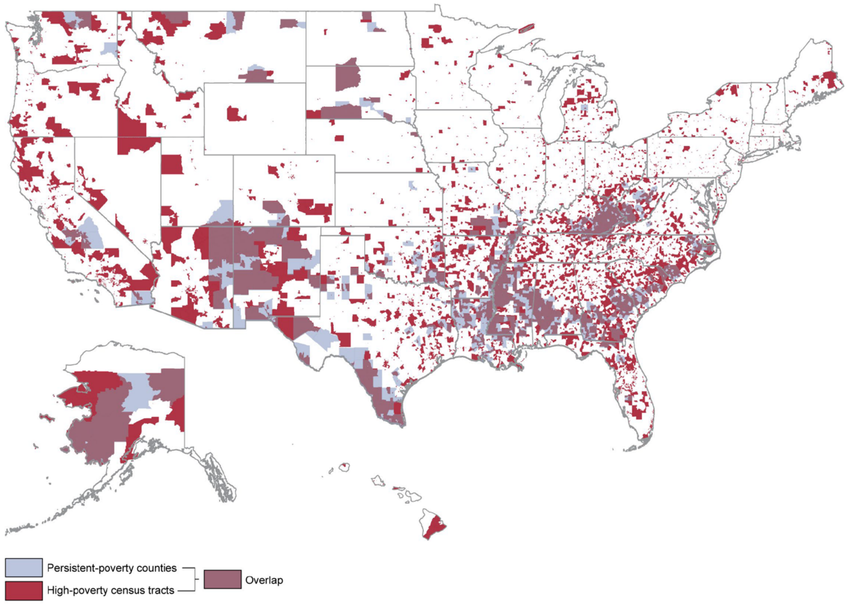
than over multiple 10-year censuses. For comparison, 23 percent of counties met the criteria for high poverty.[28]

High-poverty census tracts were largely urban and did not tend to overlap with persistent-poverty counties (see fig. 4). Specifically, using USDA's Rural-Urban Commuting Area codes, we found that as of 2017, 74 percent of high-poverty census tracts were located in urban areas, and 15 percent of high-poverty census tracts were located in persistent-poverty counties.[29] Therefore, by including high-poverty census tracts in its targeting requirements, H.R. 2055 potentially would direct program spending to areas that would not be included by targeting persistent-poverty counties alone.

[28]A higher proportion of census tracts than counties met the standards for high poverty because some counties had census tracts within them with high poverty but had an overall poverty rate below 20 percent. As noted earlier, census tracts are subdivisions of counties, which, on average, had much smaller populations.

[29]The Rural-Urban Commuting Area Codes are based on metrics similar to those for the Rural Urban Continuum Codes but differ in their descriptions and levels of detail. See app. I for more information on how we classified counties, census tracts, and ZIP codes as urban or rural. The high proportion of high-poverty tracts in urban areas is likely due in part to how census tracts are created. Because census tracts are designed to have similar populations, denser urban areas have more and smaller census tracts, while rural areas have fewer and larger tracts.

Figure 4: High-Poverty Census Tracts and Persistent-Poverty Counties, as of 2017



Source: GAO analysis of American Community Survey data and Census and Small Area Income and Poverty Estimates data. | GAO-20-518

High-poverty census tracts were more broadly distributed across U.S. regions than persistent-poverty counties, but they had similar estimated shares of racial and ethnic minority residents. Like persistent-poverty counties, the South had a higher share of high-poverty census tracts than its share of tracts overall—43 percent and 36 percent respectively—but unlike persistent-poverty counties, the majority of high-poverty tracts were located in other regions of the country. (See appendix II for more information on the geographic distribution of high-poverty census tracts.) Based on estimates from the 2017 ACS, roughly 63 percent of residents in high-poverty census tracts belonged to a racial or ethnic minority group, compared with roughly 32 percent of residents in other tracts.[30]

FFATA, as amended by the DATA Act, does not require agencies to report the census tract or street address (which could be used to determine the census tract) where funds were used. Therefore, publicly reported data cannot be used to determine the extent to which federal program funds have been used in high-poverty census tracts.

ZIP Codes Are the Best Available Substitute for Census Tracts in Federal Spending Data

We've determined that ZIP codes are the best available substitute for census tracts for analyzing program funds used in high-poverty areas.[31] Publically reported federal spending data includes an award's country, state, congressional district, county, and ZIP code, to the extent they can be identified. Of these, ZIP codes had the most similar average population to census tracts. In 2010, the average ZIP code population (about 10,000) was roughly twice that of the average census tract (about 4,200). For comparison, the average county population (about 98,000) was more than 20 times higher than the average tract population, and the average congressional district population (about 711,000) was about 170 times higher.

High-poverty ZIP codes were similar to high-poverty census tracts in proportion, location, and demographics. As of 2017, roughly 25 percent of all ZIP codes met the criteria for high poverty, slightly less than the proportion of high-poverty census tracts (28 percent).[32] Many high-poverty ZIP codes were located in the same areas as high-poverty census tracts, as 77 percent of these overlapped with at least one high-

[30]At the 90 percent confidence level, this estimate has a margin of error of plus or minus .05 percent.

[31]While the process the Census Bureau used to create ZIP Code Tabulation Areas involved census blocks and block groups, ZIP Code Tabulation Areas do not necessarily overlap with a single census tract or fit within a single county.

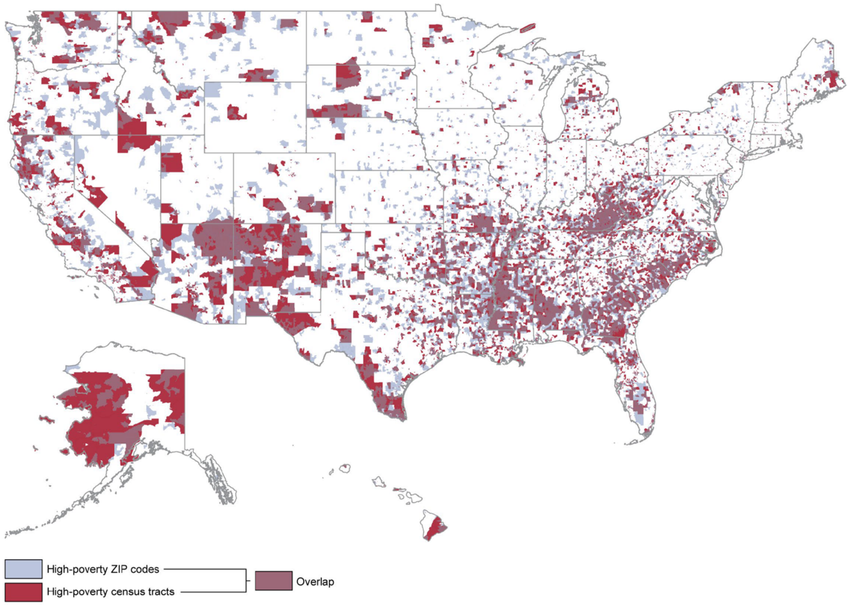
[32]We excluded 1,880 ZIP codes from our analysis because they did not have poverty rate estimates in the 2017 ACS 5-year estimates due to low population. Of the remaining 31,109 ZIP codes, 7,627 had high poverty. We created a confidence interval for the number of ZIP codes that qualify as having high poverty. At the 90 percent confidence level, from 7,555 to 7,699 ZIP codes could have met the standards for high poverty. For our analysis, we counted a high-poverty ZIP code as overlapping with a high-poverty census tract if any area in the ZIP code was part of a high-poverty census tract. See app. I for more information on how we identified high-poverty areas.

poverty census tract (see fig. 5).[33] Additionally, roughly 62 percent of residents in high-poverty ZIP codes belonged to a racial or ethnic minority group, which was similar to high-poverty census tracts (63 percent).[34]

[33]We excluded 1,880 ZIP codes from our analysis because they did not have poverty rate estimates in the 2017 ACS 5-year estimates due to low population. Of the remaining 31,109 ZIP codes, 7,627 had high poverty. We created a confidence interval for the number of ZIP codes that qualify as having high poverty. At the 90 percent confidence level, from 7,555 to 7,699 census tracts could have met the standards for high poverty. For our analysis, we counted a high-poverty ZIP code as overlapping with a high-poverty census tract if any area in the ZIP code was part of a high-poverty census tract. See app. I for more information on how we identified high-poverty areas.

[34]At the 90 percent confidence level, this estimate has a margin of error of plus or minus .05 percent.

Figure 5: High-Poverty ZIP Codes and Census Tracts, as of 2017



Source: GAO analysis of American Community Survey data. | GAO-20-518

However, high-poverty ZIP codes are not an exact substitute for high-poverty census tracts. Compared to high-poverty census tracts, as of 2017 more high-poverty ZIP codes were in the South (50 percent versus 43 percent) and fewer were in the Northeast (10 percent versus 15 percent), but the proportions in the Midwest and West were nearly equivalent (see table 2). In addition, the majority of high-poverty ZIP codes were rural, which was similar to persistent-poverty counties but different from high-poverty census tracts. As a result, high-poverty ZIP codes overlapped with persistent-poverty counties more frequently than did high-poverty census tracts (29 percent versus 15 percent).[35]

Table 2: Characteristics of Areas with Persistent or High Poverty, as of 2017

Percent	Persistent-poverty counties	High-poverty census tracts	High-poverty ZIP codes
Of Total	13[a]	28[a]	25[a]
In Northeast	0	15	10
In Midwest	10	22	21
In South	81	43	50
In West	9	20	19
Urban	16	74	30
Suburban	35	6	18
Rural	50	20	53
Of population in racial or ethnic minority group	62[b]	63[b]	62[b]
Overlapping with persistent-poverty counties	Not applicable	15	29

Source: GAO analysis of Census, American Community Survey, and Small Area Income and Poverty Estimates data. | GAO-20-518

[a]Estimates have a margin of error of ±.2 percentage points, at the 90 percent confidence level.

[b]Estimates have a margin of error of ±.05 percentage points or less, at the 90 percent confidence level.

[35]ZIP codes can include areas in multiple counties. For our analysis, we counted a high-poverty ZIP code as overlapping with a persistent-poverty county if any area in the ZIP code was part of a persistent-poverty county.

Programs Generally Used Less Than 10 Percent of Funding in Persistent-Poverty Counties, but Funding Data Have Limitations

Agencies Generally Used Less Than 10 Percent of Program Funding in Persistent-Poverty Counties

Using USAspending.gov data, we determined that 114 of the 247 programs we identified (46 percent) had sufficiently complete data on the primary place of performance at the county level.[36] These programs were implemented by seven different agencies and accounted for $87 billion in total funds used in fiscal years 2017–2019 (76 percent of the funds used under all programs we identified).

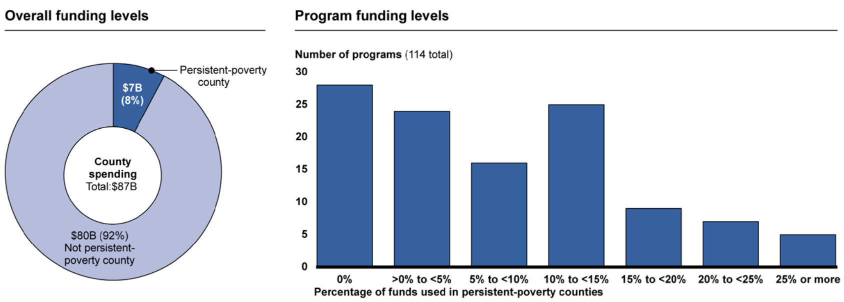
In aggregate, agencies used about 8 percent of funding under these programs in persistent-poverty counties in fiscal years 2017–2019 (see fig. 6).[37] Agencies used less than 10 percent of funding in persistent-poverty counties in 68 programs (60 percent of the total), including 27 programs that did not have any funds used in these areas.[38] However, for some programs, agencies used relatively large percentages of funds in persistent-poverty counties, with three programs using more than 50 percent of funding in these counties.

[36]We considered data to be sufficiently complete for the purposes of this analysis if 90 percent or more of observations in a field were present. These programs do not represent a generalizable sample of all programs that could be subject to H.R. 2055.

[37]The median program used 7.7 percent of funds in persistent-poverty counties in fiscal years 2017–2019. Because these programs are not a representative sample of all programs that could be subject to H.R. 2055, these results are not generalizable to all programs.

[38]See app. III for a description of the amount of funding, based on USAspending.gov data, used in persistent-poverty counties by each program with sufficiently compete data.

Figure 6: Funds Used in Persistent-Poverty Counties among Selected Federal Programs, Fiscal Years 2017–2019



Source: GAO analysis of USAspending.gov data. | GAO-20-518

Note: This figure includes federal programs that could be subject to proposed legislation—"An Act Targeting Resources to Communities in Need," H.R. 2055, 116th Cong. (2019).

Variation across Agencies

The proportion of program funding agencies used in persistent-poverty counties varied by agency. As shown in table 3, programs in three of seven agencies used less than 10 percent of their funds in persistent-poverty counties, while another three used 11–13 percent. The Regional Commissions used the highest percentage (53 percent) of funding in persistent-poverty counties, although this was through a single program and the amount used in those counties was relatively small ($30 million).

Table 3: Percentage of Funds Used in Persistent-Poverty Counties among Selected H.R. 2055 Programs, by Agency, Fiscal Years 2017–2019, Based on Publicly Reported Data

Agency	Total number of H.R. 2055 programs with sufficient county data[a]	Number of those programs that used at least 10 percent of their funds in persistent-poverty counties[a]	Aggregate percentage of funds used in persistent-poverty counties[a]
Department of Agriculture	43	25	8
Department of Commerce	6	5	12
Department of Education	1	1	11
Regional Commissions	1	1	53
Department of Health and Human Services	16	7	13
Department of Justice	39	5	4

Agency	Total number of H.R. 2055 programs with sufficient county data[a]	Number of those programs that used at least 10 percent of their funds in persistent-poverty counties[a]	Aggregate percentage of funds used in persistent-poverty counties[a]
Department of Labor	8	2	4
Overall	**114**	**46**	**8**

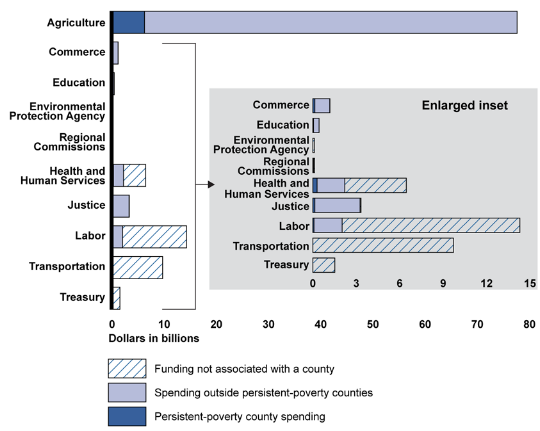
Source: GAO analysis of USAspending.gov data. | GAO-20-518

Notes: This table includes federal programs that may be subject to the proposed legislation—"An Act Targeting Resources to Communities in Need," H.R. 2055, 116th Cong. (2019). In this analysis, we grouped all Regional Commissions as one "agency" due to their relative size.

[a]Includes federal programs that had sufficiently complete data for primary place of performance at the county level (to allow for a determination of the percentage of funds used in persistent-poverty counties). These programs represented 46 percent of H.R. 2055 programs.

Of the funds used in persistent-poverty counties that we analyzed, USDA programs used 90 percent (see fig. 7). USDA had the most programs with sufficiently complete county-level data, and each of these programs used an average of $602 million per year in fiscal years 2017–2019. In contrast, the other programs with sufficiently complete county-level data used an average of $38 million. As a result, our analysis of the amount and percent of funding used in persistent-poverty counties by H.R. 2055 programs largely reflects funds used by USDA programs.

Figure 7: Total Funding Used Overall and in Persistent-Poverty Counties among Selected Federal Programs, by Department or Agency, for Fiscal Years 2017–2019



Source: GAO analysis of USAspending.gov data. | GAO-20-518

Notes: This figure includes federal programs that could be subject to proposed legislation—"An Act Targeting Resources to Communities in Need," H.R. 2055, 116th Cong. (2019). In this analysis, we grouped all Regional Commissions as one "agency" due to their relative size.

Variation within Agencies

Of the five agencies with multiple programs with sufficiently complete data, four had large variations in the percentage of funding used in persistent-poverty counties across programs, based on USAspending.gov data.[39] For example, among programs in the Department of Labor's Employment and Training Administration, two programs used no funds in persistent-poverty counties and another used roughly 23 percent of its funding in these counties. Similarly, within USDA, some programs under the Rural Business-Cooperative Service used no funding in these counties, while others used as much as 74 percent.

[39]For the purpose of this analysis, we defined large variation as resulting in a standard deviation greater than the mean value. See app. I for a full description of our methodology.

Variation by Funding Type (Grants, Direct Payments, and Loans)

Overall, programs in our analysis used roughly 12 percent of grant and direct payment funds in persistent-poverty counties, compared with roughly 7 percent of loan funds. However, only 20 loan programs (all administered by USDA) had sufficiently complete data for our analysis, and one large program—Very Low to Moderate Income Housing Loans—had a significant impact on our results.

Agencies Used Higher Levels of Program Funds in High-Poverty ZIP Codes, Especially through Subawards

Prime Award Funds Used in High-Poverty Zip Codes

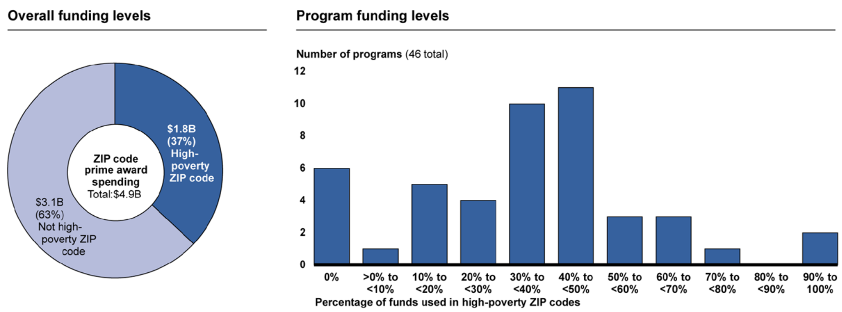
Based on USAspending.gov data, of the 247 programs, only 46 (19 percent) had sufficient data on primary place of performance at the ZIP code level for prime awards to determine the extent to which funds were used in high-poverty ZIP codes.[40] That so few programs had sufficiently complete data indicates that, in most cases, prime awards were used in multiple ZIP codes or in areas that crossed ZIP code boundaries. These 46 programs were implemented by five agencies and accounted for about $5 billion in total funding used during these years (4.3 percent of all funds used by H.R. 2055 programs).

Among these 46 programs, about 37 percent of their prime award funds were used in high-poverty ZIP codes in fiscal years 2017–2019, compared to 7 percent of funds used in persistent-poverty counties (see fig. 8).[41] Nine had more than half of their prime award funding used in high-poverty ZIP codes and 32 had more than 25 percent used in these areas.

[40]As previously noted, these programs are not a representative sample of all programs that could be subject to H.R. 2055, and our results are not generalizable to all programs.

[41]The proportion of funds used in persistent-poverty counties is calculated here only for programs with sufficiently complete prime award data at the county and ZIP code-level. As noted above, for all programs with sufficiently complete data at the county-level, the proportion was 8 percent.

Figure 8: Prime Award Funds Used in High-Poverty ZIP Codes among Selected Federal Programs, Fiscal Years 2017–2019



Source: GAO analysis of USAspending.gov data. | GAO-20-518

Note: This figure includes federal programs that could be subject to proposed legislation—"An Act Targeting Resources to Communities in Need," H.R. 2055, 116th Cong. (2019).

Four of the five agencies that had programs with sufficiently complete ZIP code data used more than 33 percent of their prime award funding in high-poverty ZIP codes (see table 4). The Regional Commission program had the highest percentage of funds used in these areas—63 percent.

Table 4: Percentage of Prime Award Funding Used in High-Poverty ZIP Codes among Selected Federal Programs, by Agency, for Fiscal Years 2017–2019

Agency	Number of H.R. 2055 programs with sufficient prime award ZIP code data[a]	Percentage of prime award funds used in high-poverty ZIP codes[a]
Department of Agriculture	1	0
Department of Commerce	6	42
Department of Education	1	40
Regional Commissions	1	63
Department of Justice	37	34
Overall	**46**	**37**

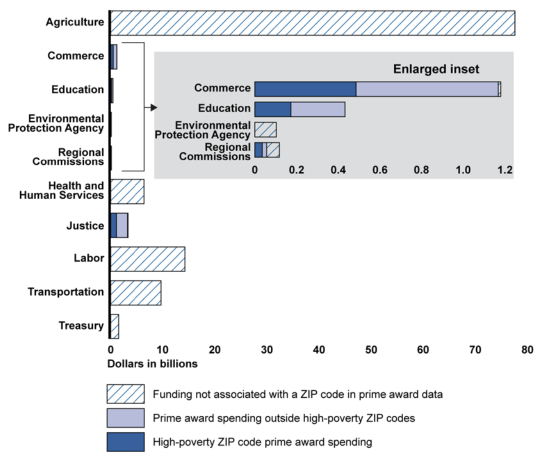
Source: GAO analysis of USAspending.gov data. | GAO-20-518

Notes: This table includes federal programs that may be subject to the proposed legislation—"An Act Targeting Resources to Communities in Need," H.R. 2055, 116th Cong. (2019). In this analysis, we grouped all Regional Commissions as one "agency" due to their relative size.

[a]Includes federal programs that had sufficiently complete data for primary place of performance at the ZIP code level (to allow for a determination of the percentage of funds used in high-poverty ZIP codes). These programs represented 19 percent of H.R 2055 programs.

The Department of Justice used the highest dollar amount of prime award funding in high-poverty ZIP codes—about $1.1 billion (see fig. 9). However, six programs in our analysis had no prime award funding in high-poverty ZIP codes, including the only USDA program for which we had ZIP code data. (See appendix III for a table on use of funds by all programs in our analysis).

Figure 9: Total Prime Award Funding Used Overall and in High-Poverty ZIP Codes among Selected Federal Programs, by Department or Agency, for Fiscal Years 2017–2019



Source: GAO analysis of USAspending.gov data. | GAO-20-518

Notes: This figure includes federal programs that could be subject to the proposed legislation—"An Act Targeting Resources to Communities in Need," H.R. 2055, 116th Cong. (2019). In this analysis, we grouped all Regional Commissions as one "agency" due to their relative size.

Subaward Funds Used in High-Poverty Zip Codes

More programs—101 programs (41 percent)—had sufficiently complete ZIP code-level primary place of performance data for subawards than for prime awards.[42] Based on USAspending.gov data, these programs accounted for about $35 billion in grant funding used in fiscal years 2017–2019, of which $12 billion (35 percent) was subawarded.[43] That most of these programs did not have sufficiently complete ZIP code-level data for their prime awards indicates that the scope for these prime awards was

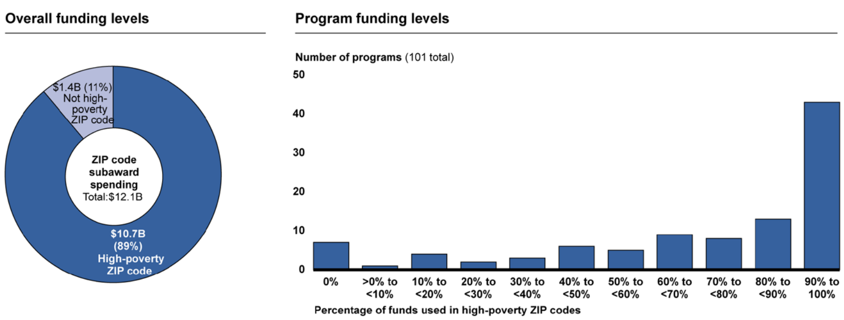
[42]All programs but one for which subaward data were available had sufficiently compete data for primary place of performance at the ZIP code-level.

[43]We only included subawards that had corresponding prime award data in our analysis.

larger than a single ZIP code but that agencies were able to track subawards to individual ZIP codes.[44] For example, this could be the case if a grant was made to a state or local government, which then made subgrants to local service providers.

According to USAspending.gov data, programs with sufficiently complete data had 89 percent of subawarded funds used in high-poverty ZIP codes in fiscal years 2017–2019 (see fig. 10).

Figure 10: Subaward Funds Used in High-Poverty ZIP Codes among Selected Federal Programs, Fiscal Years 2017–2019



Source: GAO analysis of USAspending.gov data. | GAO-20-518

Note: This figure includes federal programs that could be subject to proposed legislation—"An Act Targeting Resources to Communities in Need," H.R. 2055, 116th Cong. (2019).

The proportion of subawarded funds used in high-poverty ZIP codes was generally high across the eight agencies that implemented these programs, and some used nearly all of their subaward funding in high-poverty ZIP codes (see table 5).

[44]Thirty-nine programs had sufficiently complete ZIP code-level data for prime awards and subawards. These programs' subawards accounted for $550 million in subgrant funding, which represented about 11 percent of the prime awards made under those programs in fiscal years 2017–2019. To provide the most complete picture of where program funds were used, we included these programs' awards in both our prime award and subaward analyses. Therefore, a limited proportion of funding may be counted as both prime award and subaward spending. See app. I for more information on our methodology.

Table 5: Percentage of Subaward Funding Used in High-Poverty ZIP Codes among Selected Federal Programs, for Fiscal Years 2017–2019

Agency	Number of H.R. 2055 programs with sufficient subaward ZIP code data[a]	Percentage of subaward funds used in high-poverty ZIP codes[a]
Department of Agriculture	6	91
Department of Commerce	7	50
Department of Education	1	76
Environmental Protection Agency	2	94
Department of Health and Human Services	32	78
Department of Justice	35	45
Department of Labor	15	94
Department of Transportation	3	98
Overall	**101**	**89**

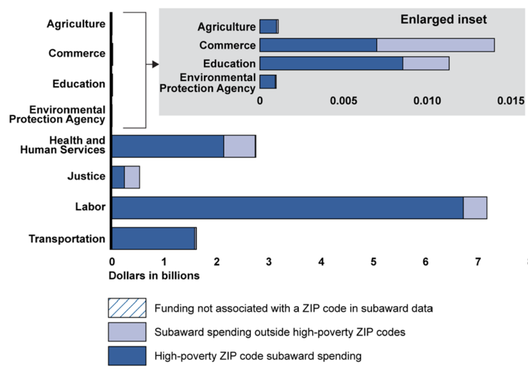
Source: GAO analysis of USAspending.gov data. | GAO-20-518

Note: This table includes federal programs that could be subject to the proposed legislation—"An Act Targeting Resources to Communities in Need," H.R. 2055, 116th Cong. (2019).

[a]Includes federal programs that had sufficiently complete data for primary place of performance at the ZIP code-level (to allow for a determination of the percentage of funds used in high-poverty ZIP codes). These programs represented 41 percent of H.R. 2055 programs.

In terms of dollar amounts, the Departments of Labor, Health and Human Services, and Transportation used the most subaward funds in high-poverty ZIP codes (see fig. 11).

Figure 11: Total Subaward Funding Used Overall and in High-Poverty ZIP Codes among Selected Federal Programs, by Department or Agency, for Fiscal Years 2017–2019



Source: GAO analysis of USAspending.gov data. | GAO-20-518

Note: This figure includes federal programs that could be subject to the proposed legislation—"An Act Targeting Resources to Communities in Need," H.R. 2055, 116th Cong. (2019).

Publicly Reported Federal Funding Data Have Some Limitations

While USAspending.gov is the official source of publicly reported information on where federal program funds have been used, there are some limitations to the primary place of performance information in these data.

- First, as we previously reported, agencies may use different methods to determine the primary place of performance for their awards, which may lead to inconsistencies in how they collect and report the information.[45] For example, we reported that according to agency officials, agencies have relied on the legal business address as the primary place of performance, requested specific primary place of performance data from the grant or other recipient, or used a combination of approaches. A Treasury whitepaper also noted that agencies may differ in how and when they obtain primary place of

[45]GAO-18-138.

performance information for financial assistance awards—by completing a SF424 Project Performance Site Location Form, as part of the application narrative, verbally at the time of award, or not at all.[46]

We previously reported that officials from several agencies said it would be helpful for OMB to issue guidance on primary place of performance to help agencies report this information consistently, and we recommended in November 2017 that OMB provide additional guidance on how agencies should identify and report primary place of performance for awards.[47] While OMB issued some guidance in 2018 clarifying reporting guidelines for some data elements, we recently reiterated the need for OMB to release additional guidance that specifically addresses the primary place of performance for noncontract awards.[48] However, as of April 2020, OMB had not fully implemented this recommendation.[49]

- Second, USAspending.gov data allow agencies to report only one primary place of performance for each award and do not indicate the proportion of an award's funding that was used in the reported location. The primary place of performance data indicate where funds were predominantly used, but according to Treasury officials, in some cases, programs also may have used a substantial amount of award funds in other locations. In an extreme example, an agency could report a persistent-poverty county as the primary place of performance for an award, associating the entire award amount with that location, although 49 percent of the award was not used in a persistent-poverty county.

[46]See Treasury Department "Element: Primary Place of Performance Address, Primary Place of Performance Congressional District, Primary Place of Performance Country Code, and Primary Place of Performance Country Name: Response to Public Feedback" (Washington D.C.: August 2015). The white paper also notes that for financial assistance awards, the primary place of performance is not always the prime organization's location or known at the time of application. Federal agencies rely on the applicant organization to provide information identifying where the work will be performed. The applicant can supply both the primary site where the work will be performed and, if a portion of the project will be performed at any other site, identify those site locations as well.

[47]GAO-18-138.

[48]GAO-20-75.

[49]See GAO, *Priority Open Recommendations: Office of Management and Budget*, GAO-20-542PR (Washington, D.C.: April 27, 2020).

However, this issue may be mitigated because agencies can designate the appropriate geographic level for the place of performance.[50] For example, if an award's funds were used relatively evenly across several ZIP codes within a county, an agency official could designate the county as the appropriate level, leaving the ZIP code blank, rather than selecting a single ZIP code. Similarly, if an award's funds were used in multiple counties, an agency could specify the entire state as the place of performance, leaving the county field blank. This could have led to fewer programs having sufficiently complete data at a given geographic level, but may have improved the accuracy of data that were available.

- Finally, USAspending.gov may not include information on all subawards. Prime award recipients are generally required to disclose information about any subawards they make of $25,000 or more, and GSA has issued instructions on how to do so.[51] However, GSA officials said that GSA is not responsible for auditing agency administrative data to ensure that every eligible subaward is reported or that the reported data are accurate. Additionally, some loan programs allow prime recipients to relend funds to subrecipients, but the FFATA Subaward Reporting System does not include subaward data for loans, and thus they are not included in USAspending.gov.[52]

Agency Comments

We provided a draft of this report to the Department of the Treasury and the General Services Administration for review and comment. The General Services Administration provided us with technical comments, which we incorporated as appropriate.

[50]According to Treasury officials, the "primary place of performance scope" data field was added to USAspending.gov in January 2020 to reflect agencies' designations.

[51]2 C.F.R. § 170.220(a). Prime award recipients report information on subawards using the FFATA Subaward Reporting System, which GSA maintains and which provides subaward data to USAspending.gov on a daily basis.

[52]For example, USDA's Intermediary Relending Program provides low-interest loans to local lenders (intermediaries) that relend to businesses to improve economic conditions and create jobs in rural communities.

We are sending copies of this report to the relevant congressional committees, the Secretary of the Treasury, and the Administrator of the General Services Administration. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff members have any questions about this report, please contact William B. Shear at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of our report. Key contributors to this report are listed in appendix IV.

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The Honorable José Serrano
Chairman
The Honorable Robert Aderholt
Ranking Member
Subcommittee on Commerce, Justice, Science, and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable James Clyburn
Majority Whip
House of Representatives

Appendix I: Objectives, Scope, and Methodology

Our objectives for this review were to provide information on (1) the location and characteristics of counties and areas with persistent or high poverty, and (2) the percentage of program funds used in persistent-poverty counties and high-poverty areas for H.R. 2055 programs in fiscal years 2017–2019.[1]

To identify counties with persistent poverty and areas with high poverty, we analyzed Census Bureau, American Community Survey (ACS), and Small Area Income and Poverty Estimates (SAIPE) data. For persistent-poverty counties, we used the 1990 and 2000 decennial censuses and the 2017 SAIPE to identify counties with actual or estimated household poverty rates of 20 percent or higher in all three data sets. For high-poverty areas, we used the 2013–2017 ACS 5-year estimates to identify census tracts and ZIP codes with household poverty rates of at least 20 percent over those years. Because the ACS and SAIPE household poverty measures are estimates, we constructed confidence intervals for the number of persistent-poverty counties and high-poverty areas we identified, at the 90 percent level. We created these confidence intervals through a technique called a bootstrap simulation, based on the confidence intervals for estimated poverty rates of each county, census tract, and ZIP code.[2]

To describe the demographic characteristics of persistent-poverty counties and high-poverty census tracts and ZIP codes, we analyzed 2017 ACS and SAIPE data on population, race, and ethnicity. For each county, census tract, and ZIP code, we created a measure of the proportion of the population that belonged to a racial or ethnic minority group by combining all race and ethnicity groups besides White/Non-

[1]H.R. 2055, introduced in 2019, would require agencies to use at least 10 percent of funds under specified federal "development programs" in persistent-poverty counties and to meet minimum funding levels for high-poverty census tracts. An Act Targeting Resources to Communities in Need, H.R.2055, 116th Cong. (2019).

[2]The ACS and SAIPE poverty rate estimates for each county, census tract, and ZIP code are based on a sample or model of the population and may not represent the actual population's poverty rate. In some cases, this could mean that a county or area would be identified as having persistent or high poverty when it did not, or vice versa. Because each sample follows a probability procedure based on random selection, they represent only one of a large number of samples that could have been drawn. Because each sample could have provided different poverty rate estimates, and therefore different numbers of persistent-poverty counties and high-poverty areas, we express our confidence in the precision of our particular sample's results as a 90 percent confidence interval. This is the interval that would contain the actual number of persistent-poverty counties or high-poverty areas for 90 percent of the samples we could have drawn.

Hispanic included in the ACS. We then estimated the proportion of the population of persistent-poverty counties and high-poverty census tracts and ZIP codes that were nonwhite. We compared these estimates to the proportions of the populations of other counties, tracts, and ZIP codes that were nonwhite and found that the differences were statistically significant at the 90 percent level.[3]

To describe the urban and rural characteristics of persistent-poverty counties and high-poverty census tracts and ZIP codes, we developed a measure based on different Department of Agriculture (USDA) classification schemes for urban development. The terms “urban” and “rural” are generally used to represent the extremes on a continuum of population, population density, and built infrastructure. To measure this continuum, USDA developed different classification schemes for different geographies, which have been updated over time and which do not have exactly the same purpose or classification codes. For counties, we used the 2013 Rural-Urban Continuum Codes, which distinguish metropolitan counties by the population size of their metropolitan area, and nonmetropolitan counties by degree of urbanization and adjacency to a metropolitan area. For census tracts and ZIP codes, we used Rural-Urban Commuting Area codes, which classify U.S. census tracts using measures of population density, urbanization, and daily commuting.

We reviewed the codes in these two classification schemes to identify the closest matches in describing urban and rural areas. As shown in table 6, our measure condensed the codes into three categories: Urban, Suburban, and Rural. For counties, we considered all counties with at least one city with a population of at least 50,000 to be urban. This ensured that we would identify all persistent-poverty counties that overlap with cities of at least 50,000 residents, but because counties can be larger than a metropolitan area, some of these counties may contain areas that are outside of a metropolitan area and are considered suburban or rural. We considered counties described as “completely rural” to be rural, in addition to counties with populations less than 20,000 that are not adjacent to a metropolitan area. For census tracts and ZIP codes, we considered only those within the urban core to be urban, as

[3]We created 90 percent confidence intervals for our estimates of the proportion of the population in persistent-poverty counties, high-poverty census tracts, and high-poverty ZIP codes based on underlying estimates of race and ethnicity proportions. We created similar confidence intervals for our estimates in counties and areas that did not have persistent or high poverty. We compared these confidence intervals and found that they did not overlap.

these areas overlap directly with a metropolitan area. We considered census tracts and ZIP code classified as “large rural” or “small town/rural” to be rural.

Table 6: GAO Classification of Urban and Rural Areas

GAO classification	2013 Rural-Urban Continuum codes		2010 Condensed Rural-Urban Commuting Area codes	
	Code	Description	Code	Description
Urban	1	Counties in metropolitan areas of 1 million population or more	1	Urban core
	2	Counties in metropolitan areas of 250,000–1 million population		
	3	Counties in metropolitan areas of fewer than 250,000 population		
Suburban	4	Urban population of 20,000 or more, adjacent to a metropolitan area	2	Suburban
	5	Urban population of 20,000 or more, not adjacent to a metropolitan area		
	6	Urban population of 2,500–19,999, adjacent to a metropolitan area		
Rural	7	Urban population of 2,500–19,999, not adjacent to a metropolitan area	3	Large rural
	8	Completely rural or less than 2,500 urban population, adjacent to a metropolitan area	4	Small town/rural
	9	Completely rural or less than 2,500 urban population, not adjacent to a metropolitan area		

Source: GAO. | GAO-20-518

To determine the percentage of program funds used in persistent-poverty counties and high-poverty areas, we first identified programs that may fall within the scope of H.R. 2055. The bill defines a ‘‘development program’’ as programs, offices, or appropriations accounts in 34 specified categories.[4] For purposes of this review, we identified development programs using the bill’s references to:

1. a specific program name (11 references);

[4]H.R. 2055, § 2(1).

2. a department or agency that implements a program or programs (11 references); or
3. a law that authorizes a program or programs (12 references).[5]

Many of the programs described in H.R. 2055 are “domestic assistance” programs. In general, domestic assistance programs provide grants, loans, direct payments, or nonfinancial assistance to state and local governments; federally recognized Indian tribal governments; domestic public, quasi-public, and private profit and nonprofit organizations and institutions; specialized groups; and individuals. Domestic assistance programs are assigned a Catalog of Federal Domestic Assistance (CFDA) number, and federal spending data track programs using these numbers.[6] Accordingly, we limited our analysis to programs that have been assigned CFDA numbers.[7]

[5]For purposes of our review, references to appropriation accounts were treated as references to a specific program by name, or the department or agency that implements a program or programs.

[6]The CFDA was a government-wide compendium of federal programs, projects, services, and activities that provide assistance or benefits to the American public. CFDA was created by the Federal Program Information Act of 1977, which required the Director of the Office of Management and Budget to identify each domestic assistance program by title, authorizing statute, administering office, and by an identifying number assigned by the Director. Responsibility for implementing the CFDA was transferred to the General Services Administration in 1983. For each federal award (grant, loan, direct payment, or other form of assistance), the Federal Funding Accountability and Transparency Act of 2006 requires federal agencies to report the CFDA number of the federal financial assistance program under which the award is made, where applicable. FFATA, § 2(b)(1)(C). The standalone compendium was terminated in 2018, but CFDA numbers were thereafter incorporated in the System for Award Management, Assistance Listings website. See Public Law 98-169.

[7]Some agencies may not have assigned a CFDA number to all activities that could nonetheless meet the bill’s definition of a development program. The term “program” does not have a well-defined, standard meaning in the legislative process. Programs are “generally, an organized set of activities directed toward a common purpose or goal that an agency undertakes or proposes to carry out its responsibilities.” See GAO, *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP (Washington, D.C.: Sept.1, 2005). For examples of program activities that were not assigned a CFDA number, see GAO, *Employment and Training Programs: Department of Labor Should Assess Efforts to Coordinate Services Across Programs*, GAO-19-200 (Washington, D.C.: Mar. 28, 2019).

In most cases, we were able to identify a CFDA-numbered program or programs for each of the 34 categories in H.R. 2055.[8] To identify programs referred to by name or implementing agency, we reviewed program and agency-specific documents and the System for Award Management. We were able to identify 11 CFDA-numbered programs that exactly or closely matched the description of the programs referred to in H.R. 2055 by name. When we identified a program that closely, but not exactly, matched the description of a program referred to by name in H.R. 2055, we assumed that it could be subject to H.R. 2055 and included it in our analysis. We also identified CFDA-numbered programs—171 programs total—based on H.R. 2055's references to implementing agencies.

We identified 65 programs based on references in H.R. 2055 to authorizing laws. To do this, we relied on the descriptions of authorizing laws in the System for Award Management, Grants.gov, and publically available program documentation. Due to the lack of standardized language in authorizing laws and public sources we relied on, the programs we identified represent examples of programs authorized (in whole or in part) under the cited laws, rather than all such programs. In some cases, we assumed that programs similar to the ones we identified—or which are implemented by the same office—could be subject to H.R. 2055, and we included those in our analysis as well.

In all, we identified 247 programs which may be subject to H.R. 2055. However, this list should be viewed as illustrative rather than definitive. Due to the scope of this review, we were not able to determine the exact group of programs that would ultimately be subject to H.R. 2055. For example, the scope of the development programs subject to H.R. 2055 may depend on interpretation by the implementing agencies, whose views we did not obtain. In addition, the methodology described above included assumptions and limitations that affected the number of programs we identified.

To identify where these programs used funds in fiscal years 2017–2019, we used USAspending.gov data on funding awards. Because of the large number of programs to which H.R. 2055 refers, we relied on publicly reported federal spending data to conduct our analysis and did not

[8]We were not able to identify a CFDA-numbered program associated with a category described as "Department of Commerce, National Institute of Standards and Technology, Construction", nor for three categories each of which described an inactive Federal Regional Commission.

consult with the federal agencies that implement these programs to obtain their perspectives or review any additional data sources they may maintain. We plan to conduct future work to examine how some agencies have implemented requirements to use at least 10 percent of program funds in persistent-poverty counties.

We accessed these data through USAspending.gov's Advanced Award Search feature in February and March of 2020. Each funding award is associated with a program or programs, and we searched for award data by agency or CFDA number, depending on how a program we identified was referred to in H.R. 2055. We searched for awards made in fiscal years 2017–2019. We further limited our analysis to awards that had a performance period in fiscal years 2017–2019, as awards can be made in one period and performed in another. We also excluded data on contract awards, as our intention was to assess where program funds were used to provide assistance, rather than procurement of goods and services for the agency. We also accessed data on subawards through USAspending.gov, which receives those data through a separate system—the FFATA Subaward Reporting System (FSRS)—that the General Services Administration administers. We only included subawards that also had a prime award included in our dataset.

To determine which of these programs had sufficiently complete primary place of performance data for fiscal years 2017–2019, we assessed the proportion of those data that were missing at the county and ZIP code level for both prime awards and subawards. For the purposes of our analysis, we considered data to be sufficiently complete if less than 10 percent of observations in a field were missing across all of a program's awards. Of the 247 total programs we identified, 161 (65 percent) had sufficiently complete data at the county or ZIP code level, or both, for either prime awards or subawards. For 52 of the 247 programs we identified (21 percent), USAspending.gov did not have any award data for fiscal years 2017–2019. The proportion of programs with sufficiently complete primary place of performance data varied widely by agency (see table 7).

Table 7: H.R. 2055 Programs with Sufficiently Complete Primary Place of Performance Data, by Agency, Fiscal Years 2017–2019

Agency	Number of H.R. 2055 programs identified	Percent of programs with sufficiently complete primary place of performance data		
		County	ZIP code for prime awards	ZIP code for subawards
Department of Agriculture	48	90	2	13
Department of Commerce	8	75	75	88
Department of Education	1	100	100	100
Department of Environmental Protection Agency	2	0	0	100
Department of Health and Human Services	81	20	0	40
Department of Housing and Urban Development	2	0	0	0
Department of Justice	59	66	63	59
Department of Labor	25	32	0	60
Department of Transportation	4	0	0	75
Department of the Treasury	5	0	0	0
Regional Commissions	12	8	8	0
Overall	**247**	**46**	**19**	**41**

Source: GAO analysis of USAspending.gov data. | GAO-20-518

Note: For the purposes of our analysis, we considered data to be sufficiently complete if less than 10 percent of observations in a field were missing across all of a program's awards.

To determine the percentage of prime award funds that programs with sufficiently complete data used in persistent-poverty counties and high-poverty ZIP codes in fiscal years 2017–2019, we used data from USAspending.gov on total obligations for awards made as grants and direct payments, and on total face value for loan awards.[9] We calculated a program's total funding by summing the total obligations and the total loan face values for each award. We then used the primary county of performance and primary ZIP code of performance associated with each

[9]We did not assess agencies' compliance with statutory 10-20-30 requirements because it was outside the scope of this review. Moreover, the analysis we performed may not accurately reflect an agency's compliance for multiple reasons. For example, the previous 10-20-30 requirements defined persistent-poverty counties using earlier data than those specified in H.R. 2055; therefore, the counties that would have qualified as having persistent poverty may differ from those we identified in this review. Additionally, our work examined individual programs, but statutes sometimes applied the formula to accounts or appropriations that fund multiple programs and activities.

award to identify whether the funding for each award was used in one of the persistent-poverty counties or high-poverty ZIP codes we identified. For each program, we calculated the total amount of funding used in persistent-poverty counties and high-poverty ZIP codes, and we used these values to calculate the percentage of program funding used in these areas. We followed the same process to calculate subaward spending in high-poverty ZIP codes.[10]

To provide the most complete picture of where program funds have been used, some funds were counted in both our analyses of prime awards and subawards. In most cases, programs did not have sufficiently complete ZIP code-level data for both prime awards and subawards. However, 39 programs have sufficiently complete ZIP code-level data for prime awards and subawards. These programs' subawards accounted for about 11 percent of their prime awards, and 5 percent of the total subawards we analyzed. We included both the prime awards and subawards in our analyses of where funds were used, because it is not clear—based on the proposed language in H.R. 2055—whether the funds should be considered "used" at the prime award's or the subaward's primary place of performance. As a result, a limited proportion of funding may be counted as spending in high-poverty ZIP codes at both the prime award and subaward levels.

Our analysis was intended to assess the amount of federal program spending in persistent-poverty counties and high-poverty areas, according to publicly reported data. Therefore, it was outside of the scope of this report to assess the extent to which funds were actually used in the locations indicated by USAspending.gov data. However, we reviewed documentation published on USAspending.gov, including those related to validation procedures for prime award data and subaward data. We also reviewed previous GAO, CRS, and agency Inspectors General reports, as well as laws and regulations relevant to the reliability, validity, and intended uses of location-related data elements in USAspending.gov. In addition, we spoke with officials from the Department of the Treasury and GSA—the agencies responsible for maintaining prime award data and subaward data, respectively—about their data validation procedures for ensuring data submissions contain required information. Based on these steps, we determined that USAspending.gov data were sufficiently reliable to provide information on the amount of funds agencies have

[10]Subaward data from USAspending.gov only contains information on grants and contracts.

allotted to persistent-poverty counties and high-poverty ZIP codes for some programs.

We conducted this performance audit from August 2019 to July 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Geographic Distribution of Persistent-Poverty Counties and High-Poverty Areas

Table 8 summarizes the number and proportion of persistent-poverty counties, high-poverty census tracts, and high-poverty ZIP codes for each state and the District of Columbia, as of 2017.[1] States with the highest and lowest numbers of each category of poverty area are as follows:

Persistent-Poverty Counties

- Mississippi, Georgia, Kentucky, Texas, and Louisiana had the largest number of persistent-poverty counties, ranging from 34 to 50.
- Mississippi, Louisiana, New Mexico, Kentucky, and Georgia had the highest proportion of persistent-poverty counties, ranging from 31 to 61 percent.[2]
- Sixteen states and the District of Columbia did not have any persistent-poverty counties.

High-Poverty Census Tracts

- California, New York, Texas, and Florida had the largest number of high-poverty census tracts, and also the largest number of tracts overall because they were the most populous states.
- Mississippi, Louisiana, New Mexico, Alabama, and Kentucky had the highest proportion of high-poverty census tracts, ranging from 43 to 55 percent.
- Less than 10 percent of census tracts in New Hampshire, Wyoming, and Hawaii had high poverty.

High-Poverty ZIP Codes

- Texas, California, Kentucky, Georgia, and Missouri had the largest number of high-poverty ZIP codes.
- Mississippi, New Mexico, Kentucky, Alaska, and Arkansas had the highest proportions of high-poverty ZIP codes.
- New Hampshire, Vermont, Maryland, Iowa, and Minnesota had the lowest rates of high-poverty ZIP codes, ranging from 5 to 8 percent.

[1]For purposes of our analysis, persistent-poverty counties have poverty rates of at least 20 percent as measured by the 1990 and 2000 censuses and the 2017 Small Area Poverty and Income Estimates. High-poverty census tracts and ZIP codes have poverty rates of at least 20 percent as measured by the 2017 American Community Survey 5-year average.

[2]States with the highest proportion of persistent-poverty counties are not the same as those with the largest number of such counties because, among other things, counties vary in population and the number of counties varies by state.

Table 8: Persistent-Poverty Counties, High-Poverty Census Tracts, and High-Poverty ZIP Codes, by State, as of 2017

State	Persistent-poverty counties	Total counties	Percent	High-poverty census tracts	Total tracts	Percent	High-poverty ZIP codes	Total ZIP codes	Percent
AK	4	**33**	12%	17	**167**	10%	101	**217**	47%
AL	20	**67**	30%	511	**1,181**	43%	274	**614**	45%
AR	16	**75**	21%	276	**686**	40%	255	**553**	46%
AZ	4	**15**	27%	512	**1,526**	34%	152	**388**	39%
CA	3	**58**	5%	2,238	**8,057**	28%	497	**1,661**	30%
CO	4	**64**	6%	211	**1,249**	17%	81	**486**	17%
CT	0	**8**	0%	139	**833**	17%	23	**261**	9%
DC	0	**1**	0%	69	**179**	39%	8	**25**	32%
DE	0	**3**	0%	42	**218**	19%	10	**60**	17%
FL	4	**67**	6%	1,208	**4,245**	28%	262	**961**	27%
GA	49	**159**	31%	799	**1,969**	41%	310	**702**	44%
HI	0	**5**	0%	34	**351**	10%	13	**85**	15%
IA	0	**99**	0%	134	**825**	16%	75	**909**	8%
ID	0	**44**	0%	65	**298**	22%	49	**255**	19%
IL	3	**102**	3%	821	**3,123**	26%	205	**1,338**	15%
IN	0	**92**	0%	453	**1,511**	30%	126	**736**	17%
KS	1	**105**	1%	178	**770**	23%	100	**669**	15%
KY	44	**120**	37%	477	**1,115**	43%	391	**724**	54%
LA	34	**64**	53%	521	**1,148**	45%	224	**495**	45%
MA	0	**14**	0%	279	**1,478**	19%	55	**516**	11%
MD	1	**24**	4%	185	**1,406**	13%	35	**427**	8%
ME	0	**16**	0%	61	**358**	17%	67	**408**	16%
MI	1	**83**	1%	842	**2,813**	30%	196	**958**	20%
MN	0	**87**	0%	181	**1,338**	14%	72	**864**	8%
MO	16	**115**	14%	411	**1,393**	30%	303	**976**	31%
MS	50	**82**	61%	366	**664**	55%	231	**403**	57%
MT	4	**57**	7%	59	**271**	22%	82	**332**	25%
NC	10	**100**	10%	696	**2,195**	32%	253	**779**	32%
ND	3	**53**	6%	23	**205**	11%	32	**345**	9%
NE	1	**93**	1%	94	**532**	18%	66	**561**	12%
NH	0	**10**	0%	22	**295**	7%	11	**236**	5%
NJ	0	**21**	0%	353	**2,010**	18%	57	**561**	10%
NM	15	**33**	45%	225	**499**	45%	172	**318**	54%
NV	0	**17**	0%	179	**687**	26%	33	**154**	21%

State	Persistent-poverty counties	Total counties	Percent	High-poverty census tracts	Total tracts	Percent	High-poverty ZIP codes	Total ZIP codes	Percent
NY	1	**62**	2%	1,312	**4,918**	27%	274	**1,657**	17%
OH	1	**88**	1%	964	**2,952**	33%	259	**1,133**	23%
OK	14	**77**	18%	362	**1,046**	35%	200	**636**	31%
OR	0	**36**	0%	197	**834**	24%	100	**400**	25%
PA	1	**67**	1%	725	**3,218**	23%	250	**1,655**	15%
RI	0	**5**	0%	60	**244**	25%	10	**71**	14%
SC	12	**46**	26%	405	**1,103**	37%	184	**402**	46%
SD	12	**66**	18%	43	**222**	19%	76	**342**	22%
TN	8	**95**	8%	530	**1,497**	35%	220	**607**	36%
TX	44	**254**	17%	1,805	**5,265**	34%	531	**1,810**	29%
UT	1	**29**	3%	87	**588**	15%	38	**261**	15%
VA	9	**136**	7%	332	**1,907**	17%	162	**817**	20%
VT	0	**14**	0%	19	**184**	10%	19	**240**	8%
WA	2	**39**	5%	236	**1,458**	16%	111	**565**	20%
WI	1	**72**	1%	260	**1,409**	18%	66	**756**	9%
WV	16	**55**	29%	187	**484**	39%	283	**648**	44%
WY	0	**23**	0%	11	**132**	8%	23	**132**	17%

Source: GAO analysis of Census, Small Area Income and Poverty Estimates, and American Community Survey data. | GAO-20-518

Appendix III: Funds Used Under H.R. 2055 Programs in Fiscal Years 2017–2019

Table 9 provides detailed information on the funds used in fiscal years 2017–2019 under each H.R. 2055 program we identified. The source of this information was USAspending.gov. The field is blank where we identified that (1) no funding award data were available, or (2) the primary place of performance data elements were not sufficiently complete for our analysis.

Table 9: Funds Used Under H.R. 2055 Programs We Identified, for Fiscal Years 2017–2019

CFDA	Program name	Total Program Prime grants and direct payments (millions of dollars)	Total Program Prime loan face value (millions of dollars)	Percent of prime awards used in persistent-poverty counties	Percent of prime awards used in high-poverty ZIP codes	Total Program Subawards (millions of dollars)	Percent of subawards used in high-poverty ZIP codes
Department of Agriculture - Rural Business Cooperative Service							
10.350	Technical Assistance to Cooperatives	–	–	–	–	–	–
10.351	Rural Business Development Grant	97.1	–	22%	–	0.12	100%
10.352	Value-Added Producer Grants	29.1	–	3%	–	–	–
10.377	Agriculture Innovation Center Demonstration Program	–	–	–	–	–	–
10.767	Intermediary Relending Program	–	52.4	8%	–	–	–
10.768	Business and Industry Loans	–	3,100	13%	–	–	–
10.771	Rural Cooperative Development Grants	26.9	–	13%	–	0.56	82%
10.773	Rural Business Opportunity Grants	11.7	–	74%	–	–	–
10.782	Appropriate Technology Transfer for Rural Areas	8.3	–	0%	–	–	–
10.854	Rural Economic Development Loans and Grants	25.9	136	8%	–	–	–
10.865	Biorefinery Assistance	–	733	0%	–	–	–
10.866	Repowering Assistance	2	–	0%	–	–	–
10.867	Bioenergy Program for Advanced Biofuels	27.5	–	2%	–	–	–
10.868	Rural Energy for America Program Loans	107	728	20%	–	0.06	100%
10.870	Rural Microentrepreneur Assistance Program Loans	8.14	15.6	11%	–	–	–

CFDA	Program name	Total Program Prime grants and direct payments (millions of dollars)	Total Program Prime loan face value (millions of dollars)	Percent of prime awards used in persistent-poverty counties	Percent of prime awards used in high-poverty ZIP codes	Total Program Subawards (millions of dollars)	Percent of subawards used in high-poverty ZIP codes
10.871	Socially-Disadvantaged Groups Grant	6.4	–	13%	–	–	–
10.872	Healthy Food Financing Initiative	–	–	–	–	–	–
10.874	Delta Health Care Services Grant Program	8.98	–	39%	–	0.05	100%
10.890	Rural Development Cooperative Agreement Program	2.98	–	0%	–	–	–
Department of Agriculture - Rural Housing Service							
10.405	Farm Labor Housing Loans	46.6	43.3	12%	–	–	–
10.410	Very Low to Moderate Income Housing Loans	–	44,700	5%	–	–	–
10.411	Rural Housing Site Loans and Self Help Housing Land Development Loans	–	47.7	3%	–	–	–
10.415	Rural Rental Housing Loans	–	44.2	1%	–	–	–
10.417	Very Low-Income Housing Repair Loans and Grants	69.4	45.9	22%	–	–	–
10.420	Rural Self-Help Housing Technical Assistance	45.4	–	17%	–	–	–
10.427	Rural Rental Assistance Payments	3,440	2.48	17%	–	–	–
10.433	Rural Housing Preservation Grants	19.6	–	23%	–	–	–
10.438	Section 538 Rural Rental Housing Guaranteed Loans	–	436	15%	–	–	–
10.446	Rural Community Development Initiative	–	–		–	–	–
10.447	The Rural Development Multi-Family Housing Revitalization Demonstration Program (MPR) Loans	57.5	274	11%	–	–	–
10.448	Rural Development Multi-Family Housing Rural Housing Voucher Demonstration Program	–	–	–	–	–	–
10.766	Community Facilities Loans and Grants	134	5,220	10%	–	–	–

CFDA	Program name	Total Program Prime grants and direct payments (millions of dollars)	Total Program Prime loan face value (millions of dollars)	Percent of prime awards used in persistent-poverty counties	Percent of prime awards used in high-poverty ZIP codes	Total Program Subawards (millions of dollars)	Percent of subawards used in high-poverty ZIP codes
Department of Agriculture - Rural Utilities Service							
10.751	Rural Energy Savings Program	–	228	3%	–	–	–
10.759	Part 1774 Special Evaluation Assistance for Rural Communities and Households	6.35		13%	–	–	–
10.760	Water and Waste Disposal Systems for Rural Communities Loans	1,800	4,020	11%	–	0.21	100%
10.761	Technical Assistance and Training Grants	74.9	–	0%	–	0.1	100%
10.762	Solid Waste Management Grants	10.7	–	6%	–	–	–
10.763	Emergency Community Water Assistance Grants	31.4	–	9%	–	–	–
10.770	Water and Waste Disposal Loans and Grants (Section 306C)	138	–	56%	–	–	–
10.850	Rural Electrification Loans and Loan Guarantees	–	10,600	12%	–	–	–
10.851	Rural Telephone Loans and Loan Guarantees	–	679	8%	–	–	–
10.855	Distance Learning and Telemedicine Loans and Grants	94.2	–	19%	–	–	–
10.858	Denali Commission Grants and Loans	6.5	–	0%	0%	–	–
10.859	Assistance to High Energy Cost Rural Communities	23.8	–	23%	–	–	–
10.862	Household Water Well System Grant Program	3.28	–	25%	–	–	–
10.863	Community Connect Grant Program	77.1	–	26%	–	–	–
10.864	Grant Program to Establish a Fund for Financing Water and Wastewater Projects	3	–	0%	–	–	–
10.886	Rural Broadband Access Loans and Loan Guarantees	–	76.3	19%	–	–	–
Commerce Department - Economic Development Administration							

CFDA	Program name	Total Program Prime grants and direct payments (millions of dollars)	Total Program Prime loan face value (millions of dollars)	Percent of prime awards used in persistent-poverty counties	Percent of prime awards used in high-poverty ZIP codes	Total Program Subawards (millions of dollars)	Percent of subawards used in high-poverty ZIP codes
11.020	Cluster Grants	75.6	–	16%	49%	2.16	70%
11.030	Science and Research Park Development Grants		–	–	–	–	–
11.300	Investments for Public Works and Economic Development Facilities	371	–	11%	37%	4.44	89%
11.302	Economic Development Support for Planning Organizations	80.7	–	10%	38%	0.21	0%
11.303	Economic Development Technical Assistance	27.4	–	11%	58%	0.37	71%
11.307	Economic Adjustment Assistance	574	–	13%	43%	5.92	16%
11.312	Research and Evaluation Program	7.95	–	–	–	0.68	23%
11.313	Trade Adjustment Assistance for Firms	39.3	–	0%	42%	0.24	73%
Department of Education - Office of Innovation and Improvement							
84.411	Education Innovation and Research Program	432	–	11%	40%	11.3	75%
Environmental Protection Agency - EPA Grants							
66.204	Multipurpose Grants to States and Tribes	3.99	–	–	–	0.33	83%
66.817	State and Tribal Response Program Grants	98.8	–	–	–	0.64	100%
Federal Regional Commissions and Authorities - Appalachian Regional Commission							
23.001	Appalachian Regional Development	–	–	–	–	–	–
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects	0.55	–	–	–	–	–
23.002	Appalachian Area Development	61.2	–	–	–	–	–
23.009	Appalachian Local Development District Assistance	–	–	–	–	–	–
Federal Regional Commissions and Authorities - Delta Regional Authority							
90.200	Delta Regional Development	–	–	–	–	–	–

CFDA	Program name	Total Program Prime grants and direct payments (millions of dollars)	Total Program Prime loan face value (millions of dollars)	Percent of prime awards used in persistent-poverty counties	Percent of prime awards used in high-poverty ZIP codes	Total Program Subawards (millions of dollars)	Percent of subawards used in high-poverty ZIP codes
90.201	Delta Area Economic Development	56.7	–	53%	63%	–	–
90.202	Delta Local Development District Assistance	–	–	–	–	–	–
90.203	Delta Creative Place-Making Pilot Initiative	–	–	–	–	–	–
90.204	States' Economic Development Assistance Program	–	–	–	–	–	–
Federal Regional Commissions and Authorities - Denali Commission							
90.100	Denali Commission Program	-0.49	–	–	–	–	–
90.199	Shared Services	–	–	–	–	–	–
Federal Regional Commissions and Authorities - Northern Border Regional Commission							
90.601	Northern Border Regional Development	–	–	–	–	–	–
Department of Health and Human Services - Health Resources and Services Administration							
93.011	National Organizations of State and Local Officials	–	–	–	–	–	–
93.059	Training in General, Pediatric, and Public Health Dentistry	–	–	–	–	–	–
93.107	Area Health Education Centers	4.26	–	–	–	0.29	100%
93.110	Maternal and Child Health Federal Consolidated Programs	167	–	–	–	28.1	75%
93.117	Preventive Medicine and Public Health Residency Training Program, Integrative Medicine Program, and National Center for Integrative Primary Healthcare	13.1	–	–	–	0.06	100%
93.124	Nurse Anesthetist Traineeship	9.3	–	–	–	–	–
93.127	Emergency Medical Services for Children	15.8	–	–	–	1.13	100%
93.129	Technical and Non-Financial Assistance to Health Centers	–	–	–	–	–	–
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	0.19	–	–	–	–	–

CFDA	Program name	Total Program Prime grants and direct payments (millions of dollars)	Total Program Prime loan face value (millions of dollars)	Percent of prime awards used in persistent-poverty counties	Percent of prime awards used in high-poverty ZIP codes	Total Program Subawards (millions of dollars)	Percent of subawards used in high-poverty ZIP codes
93.134	Grants to Increase Organ Donations	7.56	–	–	–	0.23	100%
93.145	HIV-Related Training and Technical Assistance	11.2	–	–	–	0.19	37%
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth (B)	11.8	–	0%	–	–	–
93.155	Rural Health Research Centers	24.1	–	–	–	–	–
93.157	Centers of Excellence	12.8	–	–	–	0.75	87%
93.162	National Health Service Corps Loan Repayment Program	–	–	–	–		
93.165	Grants to States for Loan Repayment Program	–	–	–	–		
93.178	Nursing Workforce Diversity	44.2	–	–	–	0.25	100%
93.186	National Research Service Award in Primary Care Medicine	2.27	–	0%	–	–	–
93.191	Graduate Psychology Education	17.4	–	–	–	–	–
93.211	Telehealth Programs	215	–	–	–	2.86	52%
93.223	Development and Coordination of Rural Health Services	–	–	–	–	–	–
93.224	Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	44.8	–	12%	–	–	–
93.236	Grants to States to Support Oral Health Workforce Activities	12.6	–	–	–	4.51	81%
93.241	State Rural Hospital Flexibility Program	30.3	–	–	–	1.07	100%
93.247	Advanced Nursing Education Workforce Grant Program	154	–	–	–	3.87	89%
93.250	Geriatric Academic Career Awards Department of Health and Human Services	1.87	–	–	–	–	
93.251	Universal Newborn Hearing Screening	2	–	–	–	0.03	0%

CFDA	Program name	Total Program Prime grants and direct payments (millions of dollars)	Total Program Prime loan face value (millions of dollars)	Percent of prime awards used in persistent-poverty counties	Percent of prime awards used in high-poverty ZIP codes	Total Program Subawards (millions of dollars)	Percent of subawards used in high-poverty ZIP codes
93.253	Poison Center Support and Enhancement Grant Program	0.23	–	–	–	–	
93.255	Children's Hospitals Graduate Medical Education Payment Program	920	–	15%	–	–	–
93.257	Grants for Education, Prevention, and Early Detection of Radiogenic Cancers and Diseases	0.63	–	–	–	–	–
93.259	Rural Access to Emergency Devices Grant and Public Access to Defibrillation Demonstration Grant	–	–	–	–	–	–
93.264	Nurse Faculty Loan Program (NFLP)	6.71	–	–	–	–	–
93.266	Health Systems Strengthening and HIV/AIDS Prevention, Care and Treatment under the President's Emergency Plan for AIDS Relief	46.7	–	–	–	–	
93.288	National Health Service Corps Scholarship Program	–	–	–	–	–	–
93.300	National Center for Health Workforce Analysis	3.67	–	–	–	0.16	0%
93.301	Small Rural Hospital Improvement Grant Program	1.52	–	0%	–	–	–
93.303	NURSE Corps Scholarship Program	47.6	–	9%	–	–	–
93.329	Skills Training and Health Workforce Development of Paraprofessionals Grant Program	–	–	–	–	–	–
93.330	Leadership in Public Health Social Work Education Grant Program	0.9	–	–	–	–	–
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	0.056	–	–	–	–	–
93.358	Advanced Education Nursing Traineeships	–	–	–	–	–	–

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93.359	Nurse Education, Practice Quality and Retention Grants	17.5	–	–	–	2.45	38%
93.364	Nursing Student Loans	0.43	–	–	–	–	–
93.365	Sickle Cell Treatment Demonstration Program	3.12	–	0%	–	1.5	58%
93.501	Grants for School-Based Health Center Capital Expenditures	11.2	–	19%	–	0.057	100%
93.504	Family to Family Health Information Centers	0.9	–	–	–	–	–
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	3.9	–	–	–	1.56	98%
93.510	Affordable Care Act (ACA) Primary Care Residency Expansion Program	–	–	–	–	–	–
93.516	Public Health Training Centers Program	17.9	–	–	–	4	75%
93.526	Grants for Capital Development in Health Centers	–	–	–	–	–	–
93.527	Grants for New and Expanded Services under the Health Center Program	79.4	–	1%	–	–	–
93.528	National Forum for State and Territorial Chief Executives	–	–	–	–	–	–
93.530	Teaching Health Center Graduate Medical Education Payment	0.41	–	–	–	–	–
93.547	National Health Service Corps	707	–	14%	–	–	–
93.615	Maternal, Infant, and Early Childhood Home Visiting Research Programs	–	–	–	–	–	–
93.680	Medical Student Education	5.74	–	–	–	–	–
93.686	Ending the HIV Epidemic: A Plan for America — Ryan White HIV/AIDS Program Parts A and B	–	–	–	–	–	–
93.732	Mental and Behavioral Health Education and Training Grants	165	–	–	–	1.7	86%

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93.822	Health Careers Opportunity Program	26.6	–	–	–	1.15	100%
93.870	Maternal, Infant and Early Childhood Home Visiting Grant Program	1,070	–	–	–	465	84%
93.877	Autism Collaboration, Accountability, Research, Education, and Support	3	–	–	–	0.1	0%
93.884	Grants for Primary Care Training and Enhancement	22.6	–	–	–	0.63	100%
93.908	Nurse Corps Loan Repayment Program	148	–	14%	–	–	–
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	139	–	14%	–	0.55	100%
93.913	Grants to States for Operation of State Offices of Rural Health	0.61	–	0%	–	–	–
93.914	HIV Emergency Relief Project Grants	81.7	–	2%	–	27.9	96%
93.917	HIV Care Formula Grants	170	–	–	–	126	97%
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	42.3	–	–	–	0.29	100%
93.923	Disadvantaged Health Professions Faculty Loan Repayment Program (FLRP)	6.5	–	14%	–	–	–
93.924	Ryan White HIV/AIDS Dental Reimbursement and Community Based Dental Partnership Grants	27.1	–	–	–	–	–
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	3.25	–	–	–	–	–
93.926	Healthy Start Initiative	35.5	–	–	–	1.79	99%
93.928	Special Projects of National Significance	–	–	–	–	–	–
93.932	Native Hawaiian Health Care Systems	–	–	–	–	–	–

CFDA	Program name	Total Program Prime grants and direct payments (millions of dollars)	Total Program Prime loan face value (millions of dollars)	Percent of prime awards used in persistent-poverty counties	Percent of prime awards used in high-poverty ZIP codes	Total Program Subawards (millions of dollars)	Percent of subawards used in high-poverty ZIP codes
93.965	Coal Miners Respiratory Impairment Treatment Clinics and Services	2.03	–	0%	–	–	–
93.969	PPHF Geriatric Education Centers	14.1	–	–	–	0.07	100%
93.976	Primary Care Medicine and Dentistry Clinician Educator Career Development Awards Program	10.9	–	–	–	0.19	74%
93.994	Maternal and Child Health Services Block Grant to the States	1570	–	–	–	2,060	75%
Department of Health and Human Services - Family and Youth Services Bureau							
93.550	Transitional Living Program and Maternity Group Home	108	–	–	–	–	–
93.557	Street outreach Program	26.7	–	–	–	–	–
93.623	Basic Center Program	110	–	–	–	–	–
Department of Housing and Urban Development - Assistant Secretary for Fair Housing and Equal Opportunity							
14.408	The Fair Housing Initiatives Program under section 561 of the Housing and Community Development Act of 1987	–	–	–	–	–	–
14.279	Specialized Housing and Services for Victims of Human Trafficking	–	–	–	–	–	–
Department of Justice - Bureau of Justice Assistance							
16.738	Edward Byrne Memorial Justice Assistance Grant Program	913	–	4%	36%	186	56%
16.812	Second Chance Reentry Initiative	213	–	5%	45%	23.1	64%
16.833	National Sexual Assault Kit Initiative	147	–	5%	45%	23.7	69%
16.838	Comprehensive Opioid Abuse Grant Program	258	–	4%	34%	31.3	31%
16.839	STOP School Violence Program	98.5	–	4%	41%	4	13%
Department of Justice - Community Oriented Policing Services							
16.710	COPS ON THE BEAT program	–	–	–	–	–	–

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Department of Justice - National Institute of Justice							
16.741	DNA Backlog Reduction Program	291	–	4%	32%	13.9	87%
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	69.2	–	2%	35%	22.3	62%
Department of Justice - Office of Juvenile Justice and Delinquency Prevention							
16.123	Community-Based Violence Prevention Program	26.1	–	9%	43%	5.3	41%
16.541	Developing, Testing and Demonstrating Promising New Programs	–	–	–	–	–	–
16.542	National Institute for Juvenile Justice and Delinquency Prevention	–	–	–	–	–	–
16.543	Missing Children's Assistance	212	–	1%	14%	4.3	82%
16.544	Youth Gang Prevention	6.82	–	0%	23%	0.5	100%
16.548	Title V Delinquency Prevention Program	–	–	–	–	–	–
16.726	Juvenile Mentoring Program	298	–	3%	22%	122	18%
16.727	Enforcing Underage Drinking Laws Program	–	–	–	–	–	–
16.731	Tribal Youth Program	17.5	–	–	–	0.25	100%
16.756	Court Appointed Special Advocates	21.3	–	0%	0%	3.5	0%
16.757	Judicial Training on Child Maltreatment for Court Personnel Juvenile Justice Programs	4.44	–	0%	100%	0.13	100%
16.758	Improving the Investigation and Prosecution of Child Abuse and the Regional and Local Children's Advocacy Centers	49.3	–	10%	20%	10.2	4%
16.818	Children Exposed to Violence	9.19	–	0%	26%	1.1	100%
16.819	National Forum on Youth Violence Prevention	–	–	–	–	–	

CFDA	Program name	Total Program Prime grants and direct payments (millions of dollars)	Total Program Prime loan face value (millions of dollars)	Percent of prime awards used in persistent-poverty counties	Percent of prime awards used in high-poverty ZIP codes	Total Program Subawards (millions of dollars)	Percent of subawards used in high-poverty ZIP codes
16.821	Juvenile Justice Reform and Reinvestment Demonstration Program	1.48	–	0%	100%	0.67	100%
16.823	Emergency Planning for Juvenile Justice Facilities	1.3	–	0%	12%	–	
16.829	Juvenile Justice Education Collaboration Assistance	–	–	–	–	–	
16.830	Girls in the Juvenile Justice System	8.34	–	11%	72%	0.74	42%
16.832	Children of Incarcerated Parents Web Portal	–	–	–	–	–	
16.836	Indigent Defense	5.06	–	9%	33%	–	
16.842	Opioid Affected Youth Initiative	15	–	7%	47%	0.39	67%
16.540	Juvenile Justice and Delinquency Prevention	158	–	3%	39%	44.3	44%
16.831	Children of Incarcerated Parents	13.7	–	2%	61%	0.73	100%
Department of Justice - Office for Victims of Crime							
16.320	Services for Trafficking Victims	211	–	7%	41%	12.6	56%
16.834	Domestic Trafficking Victim Program	7.83	–	0%	0%	2.66	0%
Department of Justice - Office on Violence Against Women							
16.016	Culturally and Linguistically Specific Services Program	1.41	–	0%	36%	–	–
16.017	Sexual Assault Services Formula Program	–	–	–	–	–	–
16.018	Services to Advocate for and Respond to Youth	–	–	–	–	–	–
16.021	Justice Systems Response to Families	11.2	–	9%	16%	1	43%
16.023	Sexual Assault Services Culturally Specific Program	4.52	–	14%	60%	–	–
16.024	Tribal Sexual Assault Services Program	4.9	–	–	–	–	–
16.025	Special Domestic Violence Criminal Jurisdiction Implementation	1.91	–	–	–	–	–

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16.026	OVW Research and Evaluation Program	1.23	–	0%	0%	0.2	95%
16.027	National Clearinghouse on Sexual Assault of American Indian and Alaska Native Women	–	–	–	–	–	–
16.524	Legal Assistance for Victims	44	–	4%	47%	2	56%
16.525	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	18.4	–	12%	3%	1.1	100%
16.526	OVW Technical Assistance Initiative	19.9	–	2%	13%	1.3	24%
16.527	Supervised Visitation, Safe Havens for Children	–	–	–	–	–	–
16.528	Enhanced Training and Services to End Violence and Abuse of Women Later in Life	3.36	–	0%		0.54	0%
16.529	Education, Training, and Enhanced Services to End Violence Against and Abuse of Women with Disabilities	3.67	–	0%	0%	0.68	65%
16.556	State Domestic Violence and Sexual Assault Coalitions	–	–	–	–	–	–
16.557	Tribal Domestic Violence and Sexual Assault Coalitions Grant Program	2.85	–	–	–	–	–
16.587	Violence Against Women Discretionary Grants for Indian Tribal Governments	34.8	–	–	–	–	–
16.588	Violence Against Women Formula Grants	–	–	–	–	–	–
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	34.8	–	11%	–	2.1	49%
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	38.9	–	9%	47%	3.8	48%

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16.684	Supporting Teens through Education and Protection Act of 2005 (STEP Act)	–	–	–	–	–	–
16.736	Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	32.1	–	4%	28%	0.48	11%
16.888	Consolidated And Technical Assistance Grant Program to Address Children and Youth Experiencing Domestic and Sexual Violence and Engage Men and Boys as Allies	6.15	–	12%	52%	0.75	100%
16.889	Grants for Outreach and Services to Underserved Populations	2.25	–	0%	61%	0.36	73%
Department of Justice - Office of Sex Offender Sentencing, Monitoring, Apprehending, Registering, and Tracking							
16.840	Keep Young Athletes Safe	4.53	–	0%	0%	–	–
Department of Labor - Employment and Training Administration							
17.201	Registered Apprenticeship	1.51	–	0%	–	4.04	86%
17.207	Employment Service/Wagner-Peyser Funded Activities	2120	–		–	98.8	95%
17.235	Senior Community Service Employment Program	1170	–	0%	–	222	82%
17.245	Trade Adjustment Assistance	1150	–	–	–	61.3	93%
17.258	WIOA Adult Program	3130	–	–	–	1810	94%
17.259	WIOA Youth Activities	972	–	–	–	2840	96%
17.261	WIOA Pilots, Demonstrations, and Research Projects	26.8	–	–	–	0.61	67%
17.264	National Farmworker Jobs Program	247	–	–	–	123	66%
17.265	Native American Employment and Training	95.6	–	23%	–	–	–
17.268	H-1B Job Training Grants	299	–	–	–	71.7	85%
17.270	Reentry Employment Opportunities	273	–	8%	–	27	96%

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17.271	Work Opportunity Tax Credit Program (WOTC)	36.8	–	–	–	–	–
17.272	Permanent Labor Certification for Foreign Workers	–	–	–	–	–	–
17.273	Temporary Labor Certification for Foreign Workers	43.7	–	–	–	–	–
17.274	YouthBuild	243	–	–	–	1.95	70%
17.276	Health Care Tax Credit (HCTC) National Emergency Grants (NEGs)	–	–	–	–	–	–
17.277	WIOA National Dislocated Worker Grants/WIA National Emergency Grants	353	–	7%	–	277	93%
17.278	WIOA Dislocated Worker Formula Grants	3820	–	–	–	1600	93%
17.280	WIOA Dislocated Worker National Reserve Demonstration Grants	22	–	9%	–	14.1	100%
17.281	WIOA Dislocated Worker National Reserve Technical Assistance and Training	13.7	–	15%	–	–	–
17.282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	–	–	–	–	–	–
17.283	Workforce Innovation Fund	–	–	–	–	–	–
17.285	Apprenticeship USA Grants	188	–	–	–	16	94%
17.286	Hurricanes and Wildfires of 2017 Supplemental - National Dislocated Worker Grants	98.3	–	0%	–	–	–
17.287	Job Corps Experimental Projects and Technical Assistance	17.3	–	–	–	–	–
Department of Transportation - Federal Transit Administration							
20.500	Capital Investment Grants Program	3110	–	–	–	402	100%
20.526	Bus and Bus Facilities Infrastructure Investment Program	5400	–	–	–	1140	97%
Department of Transportation - Office of the Secretary							

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20.933	National Infrastructure Investments	1180	–	–	–	65.5	100%
20.934	Nationally Significant Freight and Highway Projects	24.1	–	–	–	–	–
Treasury Department - CDFI Fund							
21.011	Capital Magnet Fund	354	–	–	–	–	–
21.012	Native Initiatives	32.2	–	–	–	–	–
21.014	Community Development Financial Institutions Bond Guarantee Program	475	–	–	–	–	–
21.020	Community Development Financial Institutions Program	564	8.67	–	–	–	–
21.021	Bank Enterprise Award Program	91	–	–	–	–	–

Source: GAO analysis of USAspending.gov data. | GAO-20-518

Note: In Table 9, (–) is used in cases where we found that (1) no funding award data were available, or (2) the primary place of performance data elements were not sufficiently complete for our analysis of the percentage of funds used in persistent-poverty counties and high-poverty ZIP codes.

Appendix IV: GAO Contacts and Staff Acknowledgments

GAO Contacts

William B. Shear at (202) 512-8678 or shearw@gao.gov.

Staff Acknowledgments

In addition to the above contact, Winnie Tsen (Assistant Director), Jeremy Anthony (Analyst in Charge), Kevin Barsaloux, Barbara Roesmann, Marc Molino, Farrah Stone, John Mingus, Kirsten Noethen, Kathleen Drennan, and Benjamin Licht made key contributions to this report.

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United States Government Accountability Office

Report to Congressional Addressees

May 2021

AREAS WITH HIGH POVERTY

Changing How the 10-20-30 Funding Formula Is Applied Could Increase Impact in Persistent-Poverty Counties

GAO@100
A Century of Non-Partisan Fact-Based Work

GAO-21-470

GAO@100 Highlights

Highlights of GAO-21-470, a report to congressional addressees

May 2021

AREAS WITH HIGH POVERTY

Changing How the 10-20-30 Funding Formula Is Applied Could Increase Impact in Persistent-Poverty Counties

Why GAO Did This Study

Since 2009, the 10-20-30 formula has been applied to appropriations for certain federal programs and accounts. This includes programs and accounts administered by USDA's Rural Development, Treasury's CDFI Fund, and Commerce's EDA that averaged more than $10 billion in each fiscal year from 2017 to 2020.

GAO was asked to review certain issues related to the 10-20-30 formula. This report examines (1) the proportion of funds subject to the 10-20-30 formula that these agencies awarded in persistent-poverty counties in 2017–2020 and the effects on funding levels to these areas, and (2) how agencies identify persistent-poverty counties.

GAO analyzed agency budget and administrative data for fiscal years 2017—2020. GAO also reviewed documentation, such as program descriptions and funding notices, and interviewed agency officials.

What GAO Recommends

Should Congress choose to continue to use the 10-20-30 formula, it should consider (1) tailoring the formula to programs for which it would meaningfully increase the proportion of funding awarded to persistent poverty counties, and (2) directing agencies to use a uniform list of such counties.

View GAO-21-470. For more information, contact William Shear at (202) 512-8678 or shearw@gao.gov.

What GAO Found

Some federal agencies have been statutorily required to use the "10-20-30 formula" when allocating funding for certain programs. That is, agencies must allocate at least 10 percent of designated funds to counties with poverty rates of at least 20 percent over the last 30 years (persistent-poverty counties). However, GAO found the formula has not always increased the proportion of funding awarded to those counties.

- The Department of Commerce's Economic Development Administration (EDA) and Department of the Treasury's Community Development Financial Institutions (CDFI) Fund both awarded at least 10 percent of designated funds to persistent-poverty counties in fiscal years 2017–2020, but generally had done so before 2017. Most of their programs subject to the formula already were required to target funds to economically distressed areas.
- The Department of Agriculture's (USDA) Rural Development awarded less than 10 percent of designated funds to persistent-poverty counties in at least one fiscal year for six out of 10 appropriations accounts. Rural Development set aside 10 percent of designated funds for use in those counties, which officials said met the statutory requirement to allocate these funds. Officials said some programs had not received a sufficient number of applications from these counties to meet the threshold because the programs are not well-suited to areas with severe poverty. For example, it may not be financially prudent for local governments in persistent-poverty counties to participate in a loan program to finance community facilities if the governments cannot service the debt.

The purpose of the 10-20-30 formula—to increase the proportion of funding awarded to persistent-poverty counties—could be better achieved by focusing its application on programs that do not already target such areas and which can provide meaningful assistance to economically distressed communities.

The three agencies GAO reviewed used different datasets and methodologies to identify persistent-poverty counties for the 10-20-30 formula. Appropriations laws for 2017–2020 required the agencies to use data from different years and sources, some outdated, to identify the counties. EDA also used a methodology that identified more than 100 additional persistent-poverty counties, than the other two agencies. Requiring each agency to identify persistent-poverty counties in this way is inefficient, and the inconsistency limits the ability to compare targeted funding across agencies. Using a uniform list of persistent-poverty counties, updated each year, would reduce administrative costs and facilitate assessments of the formula's impact across agencies. Such a measure also could help ensure more consistent investment in areas with current poverty rates of at least 20 percent. USDA's Economic Research Service has the technical capabilities to produce such a list and officials said that doing so each year would not be resource intensive because the agency already publishes other related work using the same data.

Contents

Figures

Abbreviations

ACS	American Community Survey
BEA	Bank Enterprise Award
CDFI	Community Development Financial Institution
Commerce	Department of Commerce
EDA	Economic Development Administration
EPA	Environmental Protection Agency
ERS	Economic Research Service
NACA	Native American CDFI Assistance
SAIPE	Small Area Income and Poverty Estimates
Treasury	Department of the Treasury
USDA	United States Department of Agriculture

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Congressional Addressees

Research has suggested that geographic areas with poverty rates of 20 percent or higher can develop systemic problems that can cause poverty to become entrenched. To help break the cycle of poverty, some policy interventions target communities with long-term high poverty. One example is the "10-20-30 formula." Federal agencies subject to the formula generally must allocate at least 10 percent of designated program funds to counties that had poverty rates of at least 20 percent over the past 30 years ("persistent-poverty counties"). We reported in 2020 that persistent-poverty counties are predominantly rural, largely located in the South, and on average had smaller populations and more residents belonging to racial or ethnic minority groups than other counties.[1]

The 10-20-30 formula was first enacted into law in 2009, at which time it applied to appropriations for certain Rural Development programs in the Department of Agriculture (USDA).[2] More recently the formula has been applied to appropriations for selected programs of the Department of Commerce (Commerce), Department of the Treasury (Treasury), and the Environmental Protection Agency (EPA).[3] Legislation was introduced in 2019 that would have expanded its implementation to more agencies and programs.[4]

In the Explanatory Statement related to the Consolidated Appropriations Act, 2020, and a separate letter from the Majority Whip of the House of Representatives, we were asked to review certain issues related to the

[1]GAO, *Targeting Federal Funds: Information on Funding to Areas with Persistent or High Poverty*, GAO-20-518 (Washington, D.C.: July 16, 2020).

[2]*See* American Recovery and Reinvestment Act of 2009, Pub. L. No. 111–5, div. A, tit. I, § 105, 123 Stat. 115, 127.

[3]The consolidated appropriations acts for fiscal years 2017–2021 applied the 10-20-30 formula to designated appropriations for all four agencies. *See, e.g.*, Consolidated Appropriations Act, 2017, Pub. L. No. 115-31, div. A, tit. I, § 750, div. B, tit. I, § 539, div. E, tit. I, div. G, tit. II, 131 Stat. 135, 177-78, 228, 330-31, 468-74.

[4]In 2019, An Act Targeting Resources to Communities in Need, H.R. 2055, was introduced in the House of Representatives and referred to committee, but was not voted on by the full chamber. 116 Cong. (2019)

10-20-30 formula.[5] This report examines (1) the proportion of appropriated funds subject to the 10-20-30 formula that USDA, Commerce, and Treasury awarded to persistent-poverty counties in fiscal years 2017–2020, and the extent to which the requirement affected funding levels to these counties; and (2) how these three agencies identified persistent-poverty counties.[6] We did not include EPA in the scope of our review because we estimated that the agency's funds represent less than 1 percent of all funds subject to the formula.

To determine which appropriations were subject to the 10-20-30 formula, we examined appropriations acts for fiscal years 2017–2020 and related explanatory statements.[7] We also interviewed agency officials from USDA's Rural Development, Treasury's Community Development Financial Institutions (CDFI) Fund, and Commerce's Economic Development Administration (EDA) and reviewed agency documentation to understand how each agency interpreted and applied the statutory requirement in the context of its respective programs.

To determine the proportion of designated funds each agency awarded to persistent poverty counties in fiscal years 2017–2020, we analyzed agency data and, where applicable, compared agency budget data to the corresponding appropriations acts and explanatory statements. For USDA Rural Development and EDA, we calculated the percentage of designated funds each agency awarded to recipients in persistent-poverty counties. For the CDFI Fund, which makes awards to financial institutions to support their investments, we calculated the percentage of funds that award recipients invested in persistent-poverty counties. We assessed

[5]Pub. L. No. 116-93, 133 Stat. 2317 (2019). This report follows up on our initial report, GAO-20-518.

[6]While this report describes the steps the agencies took in furtherance of their statutory requirement, it was not within the scope of this review to assess the agencies' compliance with appropriations laws. In addition, the exact wording of the statutory requirement varies by agency and terminology such as "allocate" may be subject to interpretation. Therefore, the report focuses on the amount each agency awarded to persistent poverty counties, which was comparable across agencies and facilitated our additional objective of determining the impact of the formula on funding in persistent-poverty counties. Throughout this report, we use the term "award" to refer to the agency's obligation of funds. For example, an agency incurs an obligation when it signs a contract, awards a grant, or takes other actions that require the government to make payments to the public.

[7]Consolidated Appropriations Act, 2017, Pub. L. No. 115-31, 131 Stat. 135; Consolidated Appropriations Act, 2018, Pub. L. No. 115-141, 132 Stat. 348; Consolidated Appropriations Act, 2019, Pub. L. No. 116-6, 133 Stat. 13; Consolidated Appropriations Act, 2020, Pub. L. No. 116-93, 133 Stat. 2317 (2019); Further Consolidated Appropriations Act, 2020, Pub. L. No. 116-94, 133 Stat. 2534 (2019).

the reliability of the data by reviewing documentation and interviewing agency officials familiar with them. We found the data to be sufficiently reliable for identifying the location of agencies' awarded funds by county.

To determine the extent to which the requirement may have increased relative funding levels to these counties, for agencies that awarded at least 10 percent of designated funds to persistent-poverty counties in years with the requirement, we calculated the amounts awarded or invested in years without the requirement. We also interviewed officials from all three agencies and reviewed notices of funding availability, policies published in the Federal Register, program descriptions, and annual reports to determine steps the agencies took to target funds to persistent-poverty counties in response to the requirements. Finally, we interviewed officials at each agency about any challenges and costs they faced related to targeting funds to these counties.

To determine how agencies identified persistent-poverty counties, we reviewed agencies' lists of persistent-poverty counties and analysis of county-level poverty. We examined whether each agency identified persistent-poverty counties using the data sources specified in the relevant appropriations acts. We also interviewed agency officials about the methodology each used to identify the counties. We examined the effect of using different data sources and methodologies on the number of counties identified by comparing the agencies' lists to each other. We also examined the potential effect of using different lists of persistent-poverty counties on the proportion of funds that agencies awarded to those counties. Specifically, because EDA used a different methodology than USDA and CDFI Fund to identify persistent-poverty counties, we calculated the amount of funds that EDA would have awarded to persistent-poverty counties in fiscal year 2019 had it used a different methodology.

We conducted this performance audit from July 2020 to May 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Programs and Accounts Subject to the 10-20-30 Formula

In fiscal years 2017–2020, appropriations relating to four agencies—Rural Development, CDFI Fund, EDA, and EPA—were subject to the 10-20-30 formula (see table 1).[8] These appropriations averaged more than $10 billion per year in each of those fiscal years, with appropriations for Rural Development representing more than 90 percent of the total.

Table 1: Estimated Appropriations Subject to the 10-20-30 Formula, Fiscal Years 2017–2020

Dollars in Billions

Agency	2017	2018	2019	2020
Community Development Financial Institutions Fund[a]	0.25	0.25	0.25	0.26
Economic Development Administration	0.12	0.14	0.14	0.15
Rural Development[b]	7.8	10.7	11.8	10.5
Environmental Protection Agency	0.08	0.08	0.09	0.09
Annual total	**8.3**	**11.2**	**12.9**	**11**

Source: GAO analysis of consolidated appropriations acts and agency documentation. | GAO-21-470

[a]Figures include appropriations for the agency's administrative costs, which are not subject to the 10-20-30 requirement, according to the agency.

[b]Consolidated appropriations acts required Rural Development to apply the 10-20-30 formula to statutory program level funding estimates in the absence of budget authority. Accordingly, for certain loan programs, these figures reflect the principal amount of the loans rather than their net cost to the federal government. Also, the formula applied only to appropriations for grants and direct loans, not guaranteed loans. For fiscal year 2017, the formula applied only to new unobligated balances as of May 5, 2017.

CDFI Fund Programs

The CDFI Fund promotes economic development in distressed communities by providing resources to CDFIs, which are banks and other financial institutions that have received certification for promoting community development and met other eligibility requirements. According to the CDFI Fund, the agency has three programs funded through appropriations that are subject to the 10-20-30 formula:

[8]The formula also was applied to appropriations in some USDA Rural Development accounts in fiscal year 2009, and to appropriations for CDFI Fund programs available for obligation in fiscal years 2012 and 2013. The focus of our review is on fiscal years 2017–2020.

- The CDFI Program provides financial assistance awards to support CDFI lending and other development activities. Financial assistance awards are balance-sheet capital for the recipient and can be used to provide loans, equity investments, and other financial products and services. All financial assistance awards must be matched with non-federal funds. The CDFI Program also provides technical assistance awards to CDFIs and other institutions to support capacity building.
- The Native American CDFI Assistance (NACA) Program has similar criteria and offers the same types of awards as the CDFI Program, except that it provides awards exclusively to CDFIs that specialize in serving Native American, Alaska Native, and Native Hawaiian communities.
- The Bank Enterprise Award (BEA) Program provides grants to federally insured banks and thrifts that demonstrate increased support of CDFIs or increased lending, investment, and service activities in economically distressed communities. Recipients must use grant funds for these same types of activities.

Economic Development Administration Programs

EDA supports regional economic development in distressed communities. Its programs provide grants to local and state governments, institutions of higher education, and other entities to help them build the capacity for economic development based on local needs and business conditions. According to EDA, appropriations for two of its programs are subject to the 10-20-30 formula:

- The Public Works Program provides grants to help distressed communities develop, expand, and upgrade physical infrastructure to enable them to attract new industry, encourage business expansion, and generate or retain jobs and investment. Projects include water and sewer system improvements, and development of industrial parks and other manufacturing facilities.
- The Build to Scale Program, formerly the Regional Innovation Strategies Program, provides grants to organizations developing and supporting regional innovation initiatives. The goals of these initiatives include strengthening industry competitiveness through adoption of new technologies and increasing full-time employment opportunities.[9]

USDA Rural Development

Rural Development is a mission area in USDA that provides grants, loans, and other assistance to support essential public facilities and

[9] *See* Stevenson-Wydler Technology Innovation Act of 1980, § 27, 15 U.S.C. § 3722.

services and support economic development in rural areas. According to USDA, appropriations that are subject to the 10-20-30 formula are administered by three agencies in Rural Development:[10]

- The Rural Housing Service implements programs that (1) work to ensure that rural families have access to affordable, safe, and well-built homes; and (2) support infrastructure projects that will make rural communities more attractive to small business owners. The programs provide loans, grants, and other assistance to low and very low-income rural residents for housing needs and provide funding to support rural infrastructure and community services development.
- The Rural Business-Cooperative Service implements programs that provide loans, grants, and other assistance to support enterprises that can compete in the mainstream economy, such as competitive and energy-efficient businesses and sustainable cooperatives. The programs partner with community-based organizations and the private sector to fund projects to create or preserve quality jobs and provide business planning services.
- The Rural Utilities Service implements programs that provide loans, grants, and other assistance for electric, telecommunications (such as broadband, distance learning, and telemedicine), and water and environment projects. Projects then leverage federal funds with private capital to expand investment in rural infrastructure, technology, and development of human resources.

In recent years, legislation has been introduced in Congress that, if enacted, would expand the 10-20-30 formula to additional agencies and programs.[11] In 2020, we reported that this legislation could expand the use of the formula to approximately 247 programs across 14 agencies.[12]

Identification of Persistent-Poverty Counties

Appropriations acts within the scope of our review specify which Census Bureau data agencies should use to identify persistent-poverty counties. Specifically, the laws cite datasets with measurements of county-level poverty over approximately 30 years, which agencies should use to

[10] According to Rural Development documentation, the 10-20-30 formula applies to 46 grant and direct loan programs in 10 accounts in the three Rural Development agencies. Some of those accounts fund multiple programs. See appendix I for a detailed list of Rural Development accounts and programs subject to the formula.

[11] *See* H.R. 2055, 116th Cong. (2019).

[12] GAO-20-518.

identify counties with at least a 20 percent poverty rate.[13] For those years before 2010—the most recent decennial census—agencies are required to use the decennial censuses.

For those years after 2010, agencies are required to use data from the American Community Survey (ACS) 5-year average or Small Area Income and Poverty Estimates (SAIPE), each of which the Census Bureau publishes annually.

- ACS is an annual survey that collects information on the U.S. population, including social, economic, housing, and demographic characteristics. For areas with populations of less than 65,000 people, the Census Bureau does not sample enough households to publish single-year estimates. Instead, it pools 5 years of data to calculate estimates, including estimates of poverty rates, which have a higher level of statistical reliability than the single-year estimates.
- SAIPE provides model-based estimates of income and poverty for school districts, counties, and states. SAIPE uses variables from several data sources to construct its models, including income and poverty estimates from the single-year ACS, the Annual Social and Economic Supplement to ACS, and the decennial census. It also includes income information from federal tax returns, income estimates from the Bureau of Economic Analysis, participation data from the Supplemental Nutrition Assistance and Supplemental Security Income programs, and population estimates.

Agency Funding Data

Each of the three agencies collected data on the counties where funds they awarded were used, and monitored the percentage of these funds going to persistent-poverty counties. The agencies monitor their funding levels in persistent-poverty counties with internal tracking documents. The relevant statutory provisions do not specify a reporting requirement for 10-20-30 funding allocations.[14]

For Rural Development and EDA programs, applicants for grant or loan funds submit the location of the property or project for which the funds will

[13]The datasets prescribed for USDA in fiscal year 2020 measured poverty over approximately 20 years. *See* Further Consolidated Appropriations Act, 2020, Pub. L. No. 116-94, div. B, tit. III, § 740, 133 Stat. 2534, 2651 (2019).

[14]*See, e.g.,* Consolidated Appropriations Act, 2017, Pub. L. No. 115-31, div. A, tit. I, § 750, div. B, tit. I, § 539, div. E, tit. I, 131 Stat. 135, 177-78, 228, 330-31.

be used. Agency staff verify the accuracy of the location information. Rural Development and EDA staff conduct manual checks of all approved applications to determine if properties and projects are located in persistent-poverty counties.

The CDFI Fund generally collects location data on investments made by award recipients, rather than tracking the recipients' location.[15] Because the CDFI Fund makes awards to financial institutions that then use the funds to make loans or other investments, collecting data on the award recipients' location (the financial institutions' addresses) would not necessarily provide information on where funds ultimately were invested. Moreover, the CDFI Fund said that some awarded funds cannot be distinguished from recipients' other capital, and therefore the location where awarded funds are invested cannot be isolated. In these cases, the CDFI Fund collects information on the locations of all investments made by award recipients, although the total amount invested may be substantially more than the amounts awarded. Because recipients invest funds after the awards are made, CDFI Fund data are not available as quickly as for the other agencies in our review.

In some cases, projects may serve multiple counties and it is not possible for agencies to determine the exact amount of funds that will be used in each. When this is the case, agencies provide estimates of the amount of funds awarded in persistent-poverty counties. For example, for the Build to Scale Program, which is regional in nature, EDA collects information on all counties in a project's intended service area. For approved projects, the agency identifies the proportion of persistent-poverty counties in the service area and estimates the amount of funding awarded to those counties by multiplying the award amount by that proportion.

[15] For technical assistance grants, the CDFI Fund collects data on the counties where award recipients are located and monitors the amount of funds awarded in persistent-poverty counties.

Agencies' Awards to Persistent-Poverty Counties Varied, and Formula Did Not Always Increase the Funding Level to These Areas

Two Agencies Awarded at Least 10 Percent of Funds to Persistent-Poverty Counties, but Had Generally Done So Before the Formula Was Applied

Our review found that EDA and the CDFI Fund consistently awarded at least 10 percent of designated funds to persistent-poverty counties in fiscal years 2017-2020. However, the 10-20-30 formula largely does not appear to have increased the proportion of program funding that went to those counties, and officials of both agencies said the formula created an administrative burden.

EDA and CDFI Fund Consistently Awarded At Least 10 Percent

According to EDA and CDFI Fund data, both agencies awarded at least 10 percent of designated funds to persistent-poverty counties in each of the fiscal years for which data were available (see table 2). Across the 4 years, EDA awarded an average of 15 percent of funds to these counties through its Public Works Program and an average of 14 percent through its Build to Scale program. The CDFI Fund awarded at least 10 percent of designated funds specifically for investments in persistent-poverty counties, and recipients of CDFI and NACA Program awards invested 18 percent of their total funds in persistent-poverty counties in fiscal years 2017–2019.[16] Recipients of awards through the BEA Program invested approximately 45 percent of their total funds in persistent poverty counties in fiscal years 2017–2018.[17]

[16]The CDFI Fund monitors investments made by CDFI Program recipients and NACA Program recipients in the same database without distinction, so investment data from these programs' recipients are combined.

[17]Investment data from Bank Enterprise Award Program recipients for fiscal years 2019–2020 and from CDFI and NACA Program recipients for fiscal year 2020 were not available at the time of our analysis.

Table 2: Percentage of Designated EDA and CDFI Funds Awarded to or Invested in Persistent-Poverty Counties, Fiscal Years (FY) 2017–2020

Agency	Program	FY 2017	FY 2018	FY 2019	FY 2020
Economic Development Administration (EDA)	Public Works	21	21	10	11
EDA	Build to Scale	13	14	12	15
Community Development Financial Institutions (CDFI) Fund	CDFI and Native American CDFI Assistance[a]	20	16	19	Not available (N/A)
CDFI Fund	Bank Enterprise Award[a]	46	45	N/A	N/A

Source: GAO analysis of data from the Departments of Treasury and Commerce. | GAO-21-470

[a]These programs provide balance sheet capital to financial institutions; thus, the awarded funds cannot be isolated from other investments. These figures describe the funds that award recipients invested in persistent-poverty counties as a percentage of their total funds invested, which may include non-federal funds.

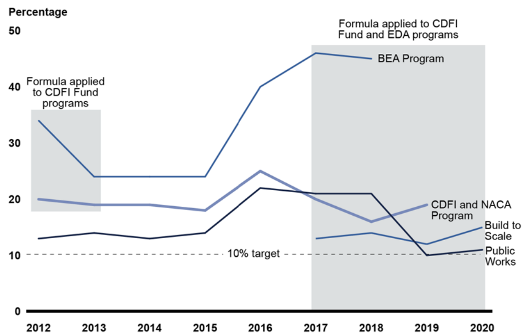
The CDFI Fund and EDA had administrative procedures to ensure they awarded at least 10 percent of designated funds to persistent-poverty counties. For its BEA Program, the CDFI Fund required recipients to commit to investing funds in persistent-poverty counties and officials said they monitored these commitments to ensure that at least 10 percent of designated funds went to those areas. For the CDFI and NACA Programs, the CDFI Fund set aside at least 10 percent of total awards for "supplemental awards" designated for applicants serving persistent-poverty counties. To be eligible for these supplemental awards, applicants must demonstrate that their institution successfully served populations living in persistent-poverty counties in the past or has a viable plan to serve persistent poverty counties during the performance period. Award recipients must directly invest the amount of the award in persistent-poverty counties within 3 years. EDA officials said they did not set aside funds in this way, but considered project location when selecting which applicants would receive funding and monitored the proportion of funds awarded in persistent-poverty counties. They said in some cases they gave preference to Build to Scale projects located in persistent-poverty counties to meet the 10-20-30 formula requirement.

Effect of Formula on EDA and CDFI Funding Appears Limited

The 10-20-30 formula may have had a limited effect on the percentage of CDFI Fund and EDA funds awarded or invested in persistent-poverty counties. Our analysis found that, for programs with available data, more than 10 percent of designated funds already had been awarded or invested in persistent-poverty counties in years without the requirement.

Moreover, the percentage of funds awarded or invested in persistent-poverty counties did not substantially increase after the introduction of the requirements in fiscal year 2017 (see fig. 1).[18]

Figure 1: Percentage of Designated Funds Awarded or Invested in Persistent-Poverty Counties, Fiscal Years 2012–2020



BEA: Bank Enterprise Award
CDFI: Community Development Financial Institutions
EDA: Economic Development Administration
NACA: Native American CDFI Assistance

Source: GAO analysis of data from the Departments of Treasury and Commerce. | GAO-21-470

Notes: Consolidated appropriations acts applied the 10-20-30 formula to CDFI Fund appropriations available for obligation in fiscal years 2012 and 2013, and then again starting in fiscal year 2017. EDA did not collect county information for Build to Scale projects prior to fiscal year 2017. This graphic shows the percentage of designated funds that were awarded or invested in persistent-poverty counties. The list of counties differs by agency because they use different methodologies to determine them. Therefore, this graphic compares the percentage of funds invested over time, and should not be used to compare investment levels among agencies.

Specifically,

- EDA awarded an average of 15 percent of designated funds in persistent-poverty counties through its Public Works Program in the 5 years before the implementation of the 10-20-30 formula (fiscal years

[18]EDA did not collect county data for Build to Scale awards' service areas prior to fiscal year 2017, when the 10-20-30 formula requirements were introduced.

2012–2016), compared with an average of 17 percent after the formula was applied.

- CDFI and NACA Program recipients invested an average of 21 percent of funds in persistent-poverty counties in fiscal years 2014–2016 (years not subject to the formula), compared with an average of 18 percent in fiscal years 2012, 2013, and 2017–2019 (years subject to the formula).
- Recipients of the CDFI Fund's BEA Program invested an average of 30 percent and 40 percent of funds in persistent-poverty counties in years without and with the requirement, respectively.[19]

Four of the five programs already had provisions to target economically distressed areas that helped them exceed the requirements under the 10-20-30 formula (see table 3). For example, applicants to the BEA Program must demonstrate they have successfully increased investments in or support to CDFIs, or alternatively, increased lending, investment, and service-related activities in areas where at least 30 percent of residents are impoverished and the unemployment rate is at least 1.5 times the national rate. Similarly, Public Works projects must be in or directly benefit economically distressed areas. CDFI Fund and EDA officials said that there is enough overlap between distressed areas and persistent-poverty counties to meet the 10-20-30 formula's 10 percent threshold for these programs without adjusting how they award funds.

[19]Investment data for fiscal year 2019 were not available at the time of this analysis.

Table 3: Program Requirements to Serve Distressed Areas

Agency	Program	Requirements to serve distressed areas[a]
Economic Development Administration (EDA)	Public Works	Projects must be located in or benefit areas with either an unemployment rate that is at least 1 percent greater than the national average, per capita income of 80 percent or less of the national average, or a special need arising from severe unemployment or economic adjustment problems resulting from severe changes in economic conditions.
EDA	Build to Scale	None.
Community Development Financial Institutions (CDFI) Fund	CDFI	Recipients must serve areas with at least 20 percent poverty, 1.5 times the national unemployment rate, 5-10 percent population decline, or median family income at or below 80 percent of applicable area income measures.
CDFI Fund	Native American CDFI Assistance	Recipients must meet CDFI Program criteria and specialize in serving Native American, Alaska Native, or Native Hawaiian communities which meet the same criteria as the CDFI Program.
CDFI Fund	Bank Enterprise Award	Recipients must demonstrate increased support of CDFIs or increased lending, investment or services in areas with at least 30 percent poverty and 1.5 times the national unemployment rate.

Source: GAO analysis of program regulations and agency documentation. | GAO-21-470

[a]Other program and agency requirements also apply, and what constitutes a geographic "area" varies by program.

In contrast, the 10-20-30 formula may have increased the percentage of funding that EDA directed to persistent-poverty counties through its Build to Scale Program, because that program was not already required to target distressed areas. We could not determine the proportion of Build to Scale funds awarded to persistent-poverty counties in fiscal year 2017 because EDA did not collect data on all counties in an award's service area before that time. EDA officials told us that in fiscal year 2017 they met the 10 percent threshold by funding certain less-competitive projects. They noted that Build to Scale projects require significant regional institutional capacity, such as support from a major university, that is not always available in persistent-poverty counties.[20] However, officials said they received more competitive applications for projects serving persistent-poverty counties in subsequent years, in part due to their outreach efforts, which allowed them to meet formula requirements without adjustment.

[20]For each fiscal year, EDA ranks applications for the Build to Scale program based on expected project outcomes, such as new jobs created. EDA generally selects the highest-ranked applications for funding, based on the amount of funds appropriated for the program.

EDA and CDFI Fund Cited Administrative Burden

EDA and CDFI Fund officials told us that verifying that funding allocations met the multiple targeting standards for distressed areas added to administrative burden. EDA officials said they believed that managing and monitoring multiple requirements to target funds to areas with similar characteristics was inefficient and did not increase the proportion of funds awarded to persistent-poverty counties. They noted that complying with the 10-20-30 formula involved time-consuming tasks of matching their county-level data for awarded funds to lists of persistent-poverty counties. CDFI Fund officials cited the burden of reviewing compliance by recipients of supplemental awards with the requirement to invest in persistent-poverty counties, and developing data systems to track investments in persistent-poverty counties.

The 10-20-30 formula is designed to increase federal funding to persistent-poverty counties without increasing the government's overall spending.[21] However, in some cases, the formula may have increased administrative burden without increasing the amount of funding awarded to or invested in these counties because EDA and CDFI Fund had other requirements to target distressed areas and already exceeded the 10 percent threshold. As noted earlier, legislation has been introduced that could expand the applicability of the 10-20-30 formula to the appropriations of additional agencies and programs. Were Congress to enact legislation like this, focusing the application of the formula to those programs or accounts where it would meaningfully increase funding to persistent-poverty counties would help achieve its intended purpose and reduce administrative burdens on programs for which the formula has no material effect.

USDA Set Aside Funds for Persistent-Poverty Counties, but Did Not Always Award 10 Percent

We found that in fiscal years 2017–2020, USDA Rural Development agencies generally set aside 10 percent of designated funds for persistent-poverty counties, but did not always award 10 percent to recipients in those counties. As noted earlier, appropriations acts required USDA to allocate at least 10 percent of funds to persistent-poverty counties for programs funded through certain appropriations accounts. USDA officials told us they believed they had satisfied the statutory requirement by setting aside 10 percent of the designated funds, even if the full 10 percent was not ultimately awarded to persistent-poverty

[21] *See, e.g.*, 157 Cong. Rec. 2557-58 (2011), 159 Cong. Rec. 4077-78 (2013), 161 Cong. Rec. 1626-27 (2015), and 165 Cong. Rec. H4878-79 (daily ed. June 19, 2019) (statement of Rep. James E. Clyburn).

counties.[22] They said that, in cases in which a program receives more applications than the agency can fund, the set-aside funds provided an advantage to applicants in persistent-poverty counties because other applicants were not eligible for these funds.[23] Under USDA's policy, if the Rural Development agencies do not award the full 10 percent from an account by July of the fiscal year, then they make the funds available to applicants outside of persistent-poverty counties who are otherwise eligible.

USDA Rural Development agencies awarded less than 10 percent of designated funds to persistent-poverty counties through six of the 10 accounts subject to the 10-20-30 formula in at least one of the 4 fiscal years in the scope of our review (see table 4). USDA data show that in aggregate, Rural Development agencies awarded 12–35 percent of funds subject to the formula to persistent-poverty counties over these 4 fiscal years. However, USDA officials said that 10-20-30 formula requirements applied to appropriations accounts individually, rather than in aggregate, and that it was their goal to award at least 10 percent through each account subject to the formula.[24]

[22]As noted earlier, we did not assess agencies' compliance with appropriations laws.

[23]Applicants to Rural Development programs include low and very low-income rural residents, private-sector businesses, community-based organizations, and local governments.

[24]USDA did not apply the 10-20-30 formula to some amounts funded through the designated accounts, based on the agency's interpretation of the relevant statutory provisions. For example, the agency excluded a $300 million appropriation in fiscal year 2020 for a broadband pilot program funded through the Distance Learning, Telemedicine and Broadband Program account. *See* Further Consolidated Appropriations Act, 2020, div. B, tit. III, § 787, 133 Stat. 2534, 2657.

Table 4: Percentage of Funds Awarded to Persistent-Poverty Counties from Designated Department of Agriculture Accounts Subject to the 10-20-30 Formula, Fiscal Years (FY) 2017–2020

Account name	FY 2017	FY 2018	FY 2019	FY 2020
Rural Housing Insurance Fund Program Account	8.2	15.8	9.2	9.5
Rural Community Facilities Program Account	30.2	2.6	2.4	3.5
Rural Housing Assistance Grants	20.8	NA	10.3	10.1
Mutual Self-Help Housing Grants	9.2	7.9	4.2	15.9
Rural Electrification and Telecommunications Loans Program Account	21.8	13.8	45.3	47.5
Distance Learning, Telemedicine and Broadband Program	15.9	NA	16.4	14.1
Rural Water and Waste Disposal Program Account	27.9	12.3	9.7	17.4
Rural Business Program Account	5.0	23.6	28.6	27.1
Rural Economic Development Loans	13.1	18.1	11.0	14.5
Rural Cooperative Development Grant Account	4.4	19.1	6.6	30.9
All accounts	**23**	**12**	**31**	**35**

Source: GAO analysis of Department of Agriculture data. | GAO-21-470

USDA officials said that while Rural Development agencies have not always awarded 10 percent of designated funds to persistent-poverty counties, they have increased their efforts to target funds to those counties, and, as a result, fewer designated accounts were below the 10 percent threshold in fiscal year 2020 than in most previous years. Officials stated that Rural Development staff throughout the country regularly conducted outreach to notify rural residents and businesses of the availability of USDA funding. USDA also issued public announcements about funding available under Rural Development programs and the intent to target funds to persistent-poverty counties. In addition, USDA developed new data resources to help agency field offices plan for using the set-aside funds.

USDA officials also noted that the appropriations act for fiscal year 2020 required the agency to measure persistent poverty differently, thus expanding USDA's list of eligible counties. Officials also noted that fewer accounts would have been below the 10 percent threshold in previous years if USDA had been permitted to use the expanded list. For example, while the Rural Housing Insurance Fund Program account awarded less than 10 percent of funds to persistent-poverty counties in fiscal years 2017 and 2019, officials said this proportion would have exceeded 10 percent had the expanded list been used. Officials said they anticipate being able to award at least 10 percent of this account's funds to persistent-poverty counties if appropriations acts continue to define persistent poverty counties using the same data-sets.

However, USDA officials said that they were not able to award 10 percent of funds to persistent-poverty counties in some cases because a program was not well-suited to areas with severe poverty, and received an insufficient number of applications from those counties. They said potential applicants in persistent-poverty counties might not see some programs' services as desirable and cited the Rural Community Facilities Program account (which awarded less than 4 percent of funds to such counties in each of the last 3 fiscal years) as an example. That account funds the Community Facilities Direct Loan Program, through which local governments and community-based nonprofit corporations can borrow funds to finance community facilities.[25] Officials said that governments in persistent-poverty counties may not be able to service the debt, and applying for such a loan may not be financially prudent. Therefore, USDA officials said they were not able to meaningfully increase the proportion of funds awarded to persistent-poverty counties through this program, despite additional outreach. Similar to applying the formula to programs already awarding more than 10 percent of funds to persistent-counties, applying the 10-20-30 formula to programs that are not well-suited to such areas also may limit agencies' ability to achieve the formula's goal of increasing the proportion of funds awarded to these counties.

[25]The Rural Community Facilities Program account also funds other programs, including Direct Community Facilities Grants, for which USDA awarded more than 10 percent of funds to persistent-poverty counties, and Guaranteed Community Facilities Loans, which were not subject to the 10-20-30 formula requirements during fiscal years 2017–2020.

Agencies' Identification of Persistent-Poverty Counties Is Not Standardized, Which Creates Challenges and May Reduce the Formula's Impact

Appropriations acts have required agencies to use different data to identify persistent-poverty counties, and agencies have used different methods when doing so. As a result, agencies have identified different counties as having persistent poverty, and EDA has identified a substantially higher number. Requiring each agency to identify persistent-poverty counties increases administrative burden, and the lack of standardization makes it difficult to compare agencies' funding levels. Furthermore, agencies may not be targeting the same counties or counties with the greatest need.

Appropriations Acts Have Required Agencies to Use Different Datasets

Appropriations acts for fiscal years 2017–2020 required the three agencies in our review to use data from different years and different sources to identify persistent-poverty counties (see table 5). Among other differences, the most recent measurements of county-level poverty that agencies were required to use varied significantly.

Table 5: Sources for Identifying Persistent Poverty Counties under the 10-20-30 Formula, as Required by Appropriations Acts, Fiscal Years 2017–2020

Agency	FY 2017	FY 2018	FY 2019	FY 2020
EDA	1990 and 2000 decennial censuses; Most recent SAIPE[a]			
Rural Development	1980,1990, and 2000 decennial censuses; 2007–2011 ACS 5-year			1990 and 2000 decennial censuses; 2007–2011 ACS 5-year
CDFI Fund	1990 and 2000 decennial censuses; 2011–2015 ACS 5-year			

Legend: ACS = American Community Survey; CDFI = Community Development Financial Institutions; EDA = Economic Development Administration; FY = fiscal years; SAIPE = Small Area Income and Poverty Estimates

Source: GAO analysis of consolidated appropriations acts. | GAO-21-470

Notes: The 10-20-30 formula requires federal agencies to allocate at least 10 percent of designated program funds to counties that had poverty rates of at least 20 percent over the past 30 years. In fiscal year 2020, the relevant appropriations act prescribed additional Census Bureau data for the CDFI Fund to use when measuring persistent poverty in U.S. territories and possessions.

[a]The Census Bureau typically releases SAIPE data in the first quarter of the fiscal year two years later than the year the data cover. For example, SAIPE data for 2019 were released in the first quarter of fiscal year 2021.

Differences in the source of data used to measure county-level poverty rates can result in different lists of persistent-poverty counties. The Congressional Research Service found that from 2011 to 2017, using

SAIPE data rather than ACS 5-year data resulted in identifying an average of roughly 28 more persistent-poverty counties.[26]

In addition, differences in the timeframes used can affect identification of persistent-poverty counties, because poverty rates change over time. Appropriations acts required USDA Rural Development and Treasury's CDFI Fund to use different years of ACS 5-year data in their calculations.[27] As a result, in fiscal year 2017, USDA identified 353 persistent poverty counties and the CDFI Fund identified 395.

Furthermore, because appropriations acts do not always utilize the most recent poverty measurements, they may not be targeting funds to areas with the greatest current need. For example, in fiscal year 2020, Rural Development and the CDFI Fund both identified Talbot County, Georgia, as a persistent-poverty county; but the most recent ACS 5-year data show it to have a poverty rate below 20 percent.

Appropriations acts for fiscal years 2017-2020 required EDA to use the most recent SAIPE data, thus requiring EDA to update its list of persistent-poverty counties each fiscal year. While that allows EDA to use current data, EDA officials told us it also has increased the agency's workload. In addition, they noted that the Census Bureau issues new poverty estimates each December, but EDA begins funding projects in October. As a result, EDA does not identify persistent-poverty counties until several months into the fiscal year, making the allocation of 10 percent of designated funds to those counties more difficult because some project funds already have been awarded.

EDA's Method for Identifying Persistent Poverty Included More Counties

EDA uses a different methodology than Rural Development and the CDFI Fund to identify persistent-poverty counties. In combination with using different data sources, as previously discussed, this has resulted in EDA

[26]Congressional Research Service, *The 10-20-30 Provision: Defining Persistent Poverty Counties*, R45100 (Washington, D.C.: Feb. 24, 2021).

[27]For example, during fiscal years 2017–2019, USDA Rural Development was required to use the 1980 decennial census as its earliest measurement of county-level poverty and the ACS 5-year average from 2007–2011 as the last. The CDFI Fund was required to use the 1990 decennial census as its earliest measurement and the 2011–2015 ACS 5-year data series as the last. The relevant appropriations act for fiscal year 2020 removed the 1980 decennial census from Rural Development's persistent-poverty county definition, leaving the 1990 and 2000 decennial censuses and the ACS 5-year average from 2007–2011.

identifying significantly more persistent-poverty counties than the other agencies (see table 6).

Table 6: Number of Persistent-Poverty Counties Identified by Agencies, Fiscal Years (FY) 2017–2020

Agency	FY 2017	FY 2018	FY 2019	FY 2020[a]
Economic Development Administration (EDA)	515 counties and 87 county equivalents in U.S. territories[b]	518 counties and 87 county equivalents in U.S. territories	515 counties and 87 county equivalents in U.S. territories	515 counties and 87 county equivalents in U.S. territories
Rural Development	353 counties			394 counties and qualifying areas in five U.S. territories
Community Development Financial Institutions (CDFI) Fund	395 counties and 78 county equivalents in Puerto Rico			395 counties, 78 county equivalents in Puerto Rico, and additional qualifying areas in three U.S. territories

Source: GAO analysis of agency data. | GAO-21-470

[a]The consolidated appropriations acts for fiscal year 2020 specifically included U.S. territories and possessions, such as Puerto Rico, Guam, American Samoa, Northern Mariana Islands and the U.S. Virgin Islands, in the definition of persistent-poverty counties for all three agencies. See, e.g., Consolidated Appropriations Act, 2020, Pub. L. No. 116-93, div. B, tit. I, § 533, div. C, tit. I, 133 Stat. 2317, 2431, 2439 (2019).

[b]Agencies used different methods to analyze persistent poverty in U.S. territories and possessions. EDA assessed whether county-equivalent subdivisions of territories and possessions had persistent poverty. The CDFI Fund considered county-equivalent geographies in Puerto Rico, but did not examine subdivisions of any other territory or possession. Rural Development did not consider subdivisions in any territory or possession; instead it considered each to be the equivalent of one persistent-poverty county.

EDA's methodology for applying the 10-20-30 formula differed from USDA's and the CDFI Fund's in how it has accounted for margins of errors, rounding, and county-equivalents in U.S. territories.

- **Margins of error.** EDA considered counties to meet the formula's threshold for SAIPE estimates if 20-percent poverty fell within the applicable margins of error. For example, a county with an estimated poverty rate of 17 percent would count as a persistent-poverty county if the SAIPE estimate had a margin of error of plus or minus 3 percent.[28] In contrast, Rural Development and the CDFI Fund would not consider this county a persistent-poverty county because its poverty estimate was below 20 percent.

[28]In this case, the confidence interval of the SAIPE poverty estimate would be from 14 to 20 percent.

- **County-equivalents in U.S. territories and possessions.** EDA included county-equivalents in Puerto Rico, Guam, American Samoa, the Northern Mariana Islands, Midway Islands, and the U.S. Virgin Islands when identifying persistent-poverty counties in all 4 fiscal years. Appropriations acts for fiscal years 2017, 2018, and 2019 did not specifically include U.S. territories and possessions when defining persistent-poverty counties, but the acts did not specifically exclude them.[29] In fiscal years 2017–2019 USDA Rural Development did not include any U.S. territories or possessions in its identification of persistent-poverty counties, while the CDFI Fund included only Puerto Rico. Appropriations acts for fiscal year 2020 required each agency to include U.S. territories and possessions in its identification of persistent-poverty counties, which both Rural Development and the CDFI Fund appear to have done.
- **Rounding.** EDA also rounded up all measurements of county-level poverty from 19.5 to 20 percent. In contrast, USDA rounded up from 19.95 to 20 percent and CDFI Fund did not round up and included only counties with at least a 20 percent poverty rate.

These differences in methodology can result in substantially different lists of persistent-poverty counties and thus different calculations of the amount of funding allocated to these counties. To illustrate this, we calculated the effect of EDA's methodological choices for identifying persistent-poverty counties in 2019. As noted, EDA identified 515 counties, plus an additional 87 county-equivalents in U.S. territories. However, if EDA had used the same data sources but had not (1) allowed for the margin of error, (2) rounded up, and (3) included U.S. territories and possessions, we found that it would have identified 409 counties. Using this list to calculate the proportion of Public Works Program funds EDA awarded to persistent-poverty counties in 2019 —rather than EDA's list—would decrease the percentage from 10 to 6. Conversely, if USDA had included U.S. territories and possessions in its calculation, it would have had fewer instances where less than 10 percent of funds were awarded to persistent-poverty counties, according to officials.

EDA officials told us that they were more inclusive in developing their list of persistent-poverty counties because EDA did not want to deny eligibility for public investment to any counties that may have persistent poverty. In response to the 10-20-30 formula, EDA changed the eligibility

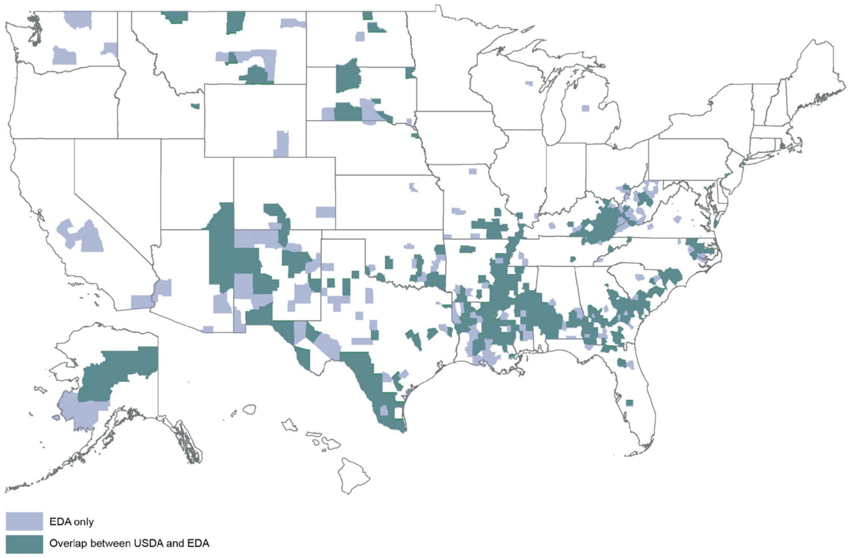
[29] *See, e.g.*, Consolidated Appropriations Act, 2017, Pub. L. No. 115-31, div. A, tit. III, § 750, 131 Stat. 135, 177-78.

criteria for the Public Works Program to ensure that all applicants in persistent-poverty counties would be eligible for funding. EDA officials noted that SAIPE estimates have large margins of error—particularly in rural areas—and that using SAIPE data without accounting for that could make a county with persistent poverty ineligible for additional resources through those programs. By using a more inclusive methodology, EDA ensures that more areas qualify as having persistent-poverty, and thus are eligible for some federal investments. However, using a more restrictive methodology could better target designated funds to areas with the greatest need.

Lack of a Uniform Updated List of Persistent-Poverty Counties Creates Challenges and May Reduce Benefits

The lack of uniformity in the data and methods agencies use to identify persistent-poverty counties has certain disadvantages. First, different lists of persistent-poverty counties can make it difficult to compare levels of funding across agencies. For example, EDA identified substantially more persistent-poverty counties than USDA in fiscal year 2019, so some awards that it identified as being in a persistent-poverty county Rural Development agencies might not (see fig. 2). Thus, the fact that the two agencies found different levels of funding awarded to persistent-poverty counties is not necessarily meaningful. Second, as discussed earlier, requiring each agency to separately identify persistent-poverty counties may be inefficient and unnecessarily add to agencies' administrative burden.

Figure 2: Persistent-Poverty Counties Identified by EDA and USDA, Fiscal Year 2019



Source: GAO analysis of agency data. | GAO-21-470

Note: The Department of Agriculture (USDA) did not identify any persistent-poverty counties for fiscal year 2019 that the Economic Development Administration (EDA) did not also identify.

Furthermore, how agencies have identified persistent-poverty counties may reduce the intended benefits of the formula. First, agencies required by statute to use older data may not be targeting funds to the areas that currently have the greatest need, because some counties they have identified as having persistent poverty no longer have poverty rates over 20 percent. Second, because they have identified different persistent-poverty counties, agencies may have targeted their funds to different areas. To the extent that consistent investment is required to break the cycle of persistent poverty, agencies awarding their funds to different areas may dilute the formula's impact.

Creation of a single, government-wide list of persistent-poverty counties, updated annually, is one option for mitigating these issues. An agency such as USDA's Economic Research Service (ERS) may be well suited to create a list of persistent-poverty counties and update it annually. ERS is a federal statistical agency that previously published an economic county typology that included persistent-poverty counties. ERS officials said that the agency's technical capabilities would readily allow it to identify persistent-poverty counties. Furthermore, officials said that identifying persistent-poverty counties each year would not be resource intensive for ERS because the agency already acquires the required datasets, and publishes other related work using those data.

As noted earlier, agencies subject to the 10-20-30 formula have different lists of persistent-poverty counties in part because the applicable appropriations acts vary in how they require agencies to identify these counties. However, consistency in the counties targeted by the 10-20-30 formula could better ensure the formula achieves its intended purpose of increasing resources to areas in need. Were Congress to include the 10-20-30 formula in future appropriations laws, requiring agencies to use a single, uniform list of persistent-poverty counties could reduce administrative burden and help ensure a more consistent approach to targeting resources to communities in need.

Conclusions

The 10-20-30 formula is designed to increase financial assistance to areas with persistent poverty without increasing federal spending overall. But two of three agencies we reviewed—EDA and the CDFI Fund—were awarding at least 10 percent of some program funds to persistent-poverty counties even before the formula went into effect. As a result, the formula does not appear to have had an impact on the percentage of funding to these needy areas, while creating some administrative burden for the agencies implementing it. USDA Rural Development agencies had difficulty meeting the 10 percent threshold under one program because it was not well-suited to such areas. Congress may elect to apply the 10-20-30 formula to additional programs in the future. Were it to do so, focusing its application to programs for which it would meaningfully increase the proportion of funds awarded to targeted counties could help ensure the formula achieves its intended purpose, while reducing any unnecessary administrative burden.

Each agency with funds subject to the 10-20-30 formula has identified different counties as having persistent poverty, and the total number of counties they identified has varied substantially. This is the result of differences in appropriations laws, which require agencies to use varying data sources and time frames, and methodological choices agencies make. If Congress elects to include the formula in future appropriations laws, requiring agencies to use a single, uniform list of persistent-poverty counties—such as one created by the Economic Research Service—would reduce administrative burden and facilitate assessments of formula impact across agencies. In addition, using such a list could help ensure that the formula targets resources to areas in need on a more consistent basis.

Matters for Congressional Consideration

We are making the following two matters for congressional consideration:

If Congress elects to include the 10-20-30 formula in future appropriations acts, Congress should consider focusing its application on those programs or accounts where it would meaningfully increase the proportion of funding awarded to persistent-poverty counties. (Matter for Consideration 1)

If Congress elects to include the 10-20-30 formula in future appropriations acts, Congress should consider requiring the relevant agencies to use a uniform list of persistent-poverty counties. Such a list could be created and updated annually by an agency well-suited to compile it, such as the Economic Research Service. (Matter for Consideration 2)

Agency Comments

We provided a draft of this report to the Departments of Agriculture, Commerce, and Treasury for review and comment. The Department of the Treasury provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Agriculture, the Secretary of Commerce, the Secretary of the Treasury, and other interested parties. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staff members have any questions about this report, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of our report. Key contributors to this report are listed in appendix II.

William B. Shear
Director, Financial Markets and Community Investment

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The Honorable Robert Aderholt
Ranking Member
Subcommittee on Commerce, Justice, Science, and Related Agencies
Committee on Appropriations
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The Honorable James Clyburn
Majority Whip
House of Representatives

Appendix I: USDA Rural Development Accounts and Programs Subject to the 10-20-30 Formula in Fiscal Years 2017–2020

Appropriations acts for fiscal years 2017–2020 applied the 10-20-30 formula to appropriations for grants and direct loans funded through 10 Treasury accounts for the Department of Agriculture (USDA) Rural Development.[1] A single account may contain funds for multiple programs. USDA identified 46 programs funded through the designated accounts and subject to the formula (see table 7). USDA officials told us the agencies' program and budget staff calculated how much of each program's funds to set aside for applicants in persistent-poverty counties to meet the 10 percent requirement at the account level. The appropriations acts did not specifically apply the 10-20-30 formula to appropriations for guaranteed loans, so USDA did not include those amounts when calculating how much to set aside for persistent-poverty counties from each account. As a result, guaranteed loan programs are not shown in table 7.[2]

[1] *See, e.g.*, Consolidated Appropriations Act, 2017, Pub. L. No. 115-31, div. A, tit. III, § 750, 131 Stat. 135, 177-78.

[2] USDA excluded additional amounts funded through the designated accounts based on the agency's interpretation of the relevant statutory provisions. For example, the agency excluded a $300 million appropriation in fiscal year 2020 for a broadband pilot program which was funded through the Distance Learning, Telemedicine and Broadband Program account. *See* Further Consolidated Appropriations Act, 2020, Pub. L. No. 116-94, div. B, tit. III, § 787, 133 Stat. 2534, 2657 (2019).

Table 7: Rural Development Agencies' Treasury Accounts and Programs Subject to the 10-20-30 Formula, Fiscal Years 2017–2020

Rural Development Agency	Treasury Account	Programs
Rural Housing Service	Rural Housing Insurance Fund Program Account	Section 502 Single Family Housing Direct Loans
		Section 504 Direct Housing Repair Loans
		Section 514 Farm Labor Housing Loans
		Section 515 Rural Rental Housing Loans
		Section. 523 Self-Help Housing Land Development Loans
		Section. 524 Direct Site Development Loans
		Single Family Housing Credit Sales
		Section 516 Farm Labor Housing Grants
	Rural Community Facilities Program Account	Community Facilities Direct Loans Community Facilities Direct Grants Economic Impact Initiative Grants Rural Community Development Initiative Grants Tribal College Initiative Grants
	Rural Housing Assistance Grants[a]	Section 504 Very Low-Income Housing Repair Grant
		Section. 533 Rural Housing Preservation Grants
	Mutual and Self-Help Housing Grants	Section 523 Mutual and Self-Help Housing Grants
Rural Business Cooperative Service	Rural Cooperative Development Grants	Rural Cooperative Development Grants
		Grants to Assist Socially Disadvantaged Producers
		Value Added Agricultural Product Market Development Grants
	Rural Economic Development Loans Program Account	Rural Economic Development Loans
	Rural Business Program Account	Rural Business Development Grants - Business Enterprise Grants
		Rural Business Development Grants - Business Enterprise Native American Grants
		Delta Regional Authority Grants
		Appalachian Regional Commission Grants
Rural Utilities Service	Rural Electrification and Telecommunications Loans Program Account	Electric Direct Federal Financing Bank Loans
		Telecommunications Direct Treasury Loans
		Telecommunications Direct Federal Financing Bank Loans Section 313A Electric Underwriting Loans
	Distance Learning, Telemedicine, and Broadband Program[a]	Broadband Telecommunications Direct Loans Broadband Telecommunications Grants
		Distance, Learning and Telemedicine Grants Delta Health Care Services Grants

Rural Development Agency	Treasury Account	Programs
Rural Utilities Service	Rural Water and Waste Disposal Program Account	Water and Waste Disposal Loans
		Water and Waste Disposal - Grants
		Emergency and Community Water Assistance Grants
		Solid Waste Management Grants
		Circuit Rider Program
		Water and Waste Disposal Technical Assistance Grants
		Water and Waste Disposal Predevelopment and Planning Grants
		Grants for Colonias, Native Americans and Alaska Natives
		High Energy Cost Grants
		Water Well System Grants
		Revolving Fund Program
		Special Evaluation Assistance for Rural Communities and Households (SEARCH)
		Rural Energy for America Program (REAP)
		Water and Waste Technical Assistance Pilot Program FY20

Source: GAO analysis of Department of Agriculture data. | GAO-21-470

[a]These accounts were not subject to the 10-20-30 formula in fiscal year 2018. See Consolidated Appropriations Act, 2018, Pub. L. No. 115-141, div. A, tit. III, § 759, 132 Stat. 348, 395.

Appendix II: GAO Contact and Staff Acknowledgments

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Staff Acknowledgments

In addition to the above contact, Winnie Tsen (Assistant Director), Jeremy Anthony (Analyst in Charge), Kayla Good, Marc Molino, Kirsten Noethen, Barbara Roesmann, and Farrah Stone made key contributions to this report.

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