

Housing and Community
Development Act of 1974

Community Development Block Grant Program

FIRST ANNUAL REPORT
EXECUTIVE SUMMARY

U.S. DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT

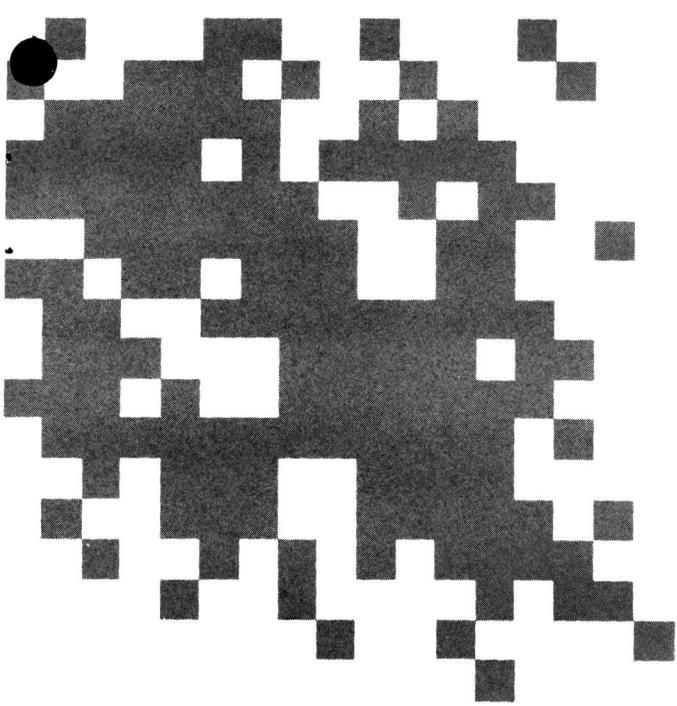
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December 1975



INTRODUCTION

Enactment of the Housing and Community Development Act of 1974 ^{1/} marked a new era in relations between the Federal Government and units of general local government. Title I of the Act, the Community Development Block Grant Program (CDBG), consolidated seven existing categorical grant-in-aid programs ^{2/} administered by the Department of Housing and Urban Development. The oldest of these programs had been in force for twenty-five years.

The Report of the House Committee on Banking and currency ^{3/} identified the need for a new program that would consolidate several categorical grant programs, each with its own limiting focus, grant formula, and distinct program requirements. The new program would simplify local application and Federal review requirements to avoid funding delays and uncertainties. Local elected officials, rather than special-purpose agencies, would have responsibility for determining community development needs, establishing priorities, and allocating resources.

Generally, activities eligible under the categorical programs can be carried out with CDBG funds, and some new activities can be undertaken. To further increase the locality's flexibility in carrying out community development activities, these funds may be used anywhere within the local government's jurisdiction to serve principally the needs of low- and moderate-income people, to aid in the prevention or elimination of slums and blight, and/or to meet urgent community development needs.

Reporting Requirement

The Secretary's annual Report follows the directive of Section 113 of the Community Development Block Grant legislation to focus upon the progress made in accomplishing the program's objectives and the use of the \$2.55 billion for the FY 1975 appropriation. At this point, most recipients have had very little time for actual implementation of the Community Development Programs; therefore this Report is, of necessity, based on recipients' planned program objectives and use of funds.

^{1/} Public Law 93-383.

^{2/} Urban Renewal, Model Cities, Water and Sewer Facilities, Open Space, Neighborhood Facilities, Rehabilitation Loans, and Public Facilities Loans.

^{3/} U. S. Congress, Report of the House Committee on Banking and Currency on H. R. 15361, House Report No. 93-1114, Washington, D. C. : Government Printing Office, 1974.

Later reports will indicate the extent to which actual implementation differs from plans as well as other aspects of the program. Since CDBG was intended to consolidate a number of categorical community development programs it is inevitable that the new program will be compared with its predecessors, and this Report makes such comparisons wherever possible.

Because of the timing involved in implementation, this report is void of recommendations for modifying the program. Recommendations for change, if any, will be reserved until all classes of recipients have had at least one full year of experience.

Data Sources 4/

Information for this report was gathered from seven different data sources, including five special analyses of the CDBG recipients' Community Development Programs and Housing Assistance Plans. These analyses and data sources are:

1. An analysis of the kinds of activities (including urban renewal, water and sewer, open space, etc.) to which CDBG recipients are allocating funds, the income levels of principal beneficiaries of the funds, local attention to national objectives, and community development strategies are based on a detailed review of the Community Development Program, from a sample of 151 formula metropolitan and non-formula entitlement cities within Standard Metropolitan Statistical Areas. Hold-harmless communities outside Standard Metropolitan Statistical Areas from which census tract information is not available are omitted from this sample.
2. Responses to self-administered Community Development Funding Surveys from 880 entitlement cities.
3. An assessment of the housing conditions (number of substandard units, housing suitable for rehabilitation, etc.) requiring housing assistance, and local plans to address housing needs during the first year are derived from an analysis of a 31 percent sample of the total 1,321 housing assistance plans approved.
4. An analysis of the three sources of discretionary funding according to applicant, size of grant, and legislative and field office approval criteria are based on questionnaire responses to a 100 percent sample of the department's field offices.
5. An assessment of local uses of other sources of funds committed to community development activities is derived from information

4/ See Appendix A for a more detailed description of the methodology used in preparing this Report.

from site visits to 12 urban counties and 24 entitlement communities.

6. Supplemental data sources include:
 - a. Information from field visits to 24 entitlement cities and 12 urban counties to discuss the initial local experience with the block grant process is employed throughout the text in trend analyses;
 - b. Semi-monthly progress reports submitted by HUD field offices; and,
 - c. Budgets submitted by all CDBG grant recipients.
7. An analysis of the extent to which community development activities are being coordinated with housing for low- and moderate-income families is based on a cross-match of census tract information in the "Community Development Programs" and the "Housing Assistance Plans."

EXECUTIVE SUMMARY

APPLYING FOR FUNDS

New Characteristics of CDBG

The Community Development Block Grant (CDBG) Program, enacted in 1974, brings four new characteristics to the administration of Federal funds.

1. Simplified Requirements: CDBG regulations printed in the Federal Register total about 25 pages as compared to about 2,600 pages of regulations in HUD handbooks for categorical grant programs.

A review of the HUD handbook for any single categorical program finds a large number of required items to be submitted to HUD for review; CDBG applicants must provide seven documents (excluding Grantee's Performance Report, required after the first year).

2. Single vs. Multiple Applications: One application per locality is required each year under CDBG compared to an average of five per year during FY 1968-1972 for large cities applying for categorical aid.

Entitlement applications have averaged 50 pages and discretionary grant applications, 40 pages. This reflects a considerable reduction in paper work compared with the 1,400 pages average per year for categorical applications replaced by CDBG. CDBG recipients report that they are spending less time preparing their applications for the new program than they did for the categorical programs. An average of 1,035 person-hours was required to prepare, process, and submit an application for an entitlement grant.

The average cost to prepare, process, and submit CDBG entitlement applications was \$12,305 which represents less than one percent of the average grant amount. Cities with more HUD categorical program experience and those with larger grants spent the smallest proportion of their grants on application preparation.

3. Shorter HUD Processing Times: CDBG legislation requires that entitlement applications be approved automatically if HUD does not act within 75 days. In FY 1975, 1,324 applications were submitted by entitlement cities and urban counties. All were acted upon within the 75-day period. The average HUD review time was 49 days for entitlement applications.

The time involved from the start of application preparation through HUD review, approval, and execution of the contract averaged 8 months for CDBG entitlement cities and urban counties, compared with 31 months for conventional urban renewal projects.

For non-entitlement communities outside metropolitan areas, 5,004 pre-applications and 2,281 full applications were submitted. Because requests exceeded the money available, 1,144 applications were approved for full or partial funding.

4. HUD Post-Audit vs. Review: The standard of review under Section 104(c) restricts HUD's role to determinations relating to the eligibility of activities and compliance with applicable laws; and determinations that the applicant's description of needs and objectives is not plainly inconsistent with significant facts and data, or that activities are not plainly inappropriate to meeting the needs and objectives.

Post-audit and review procedures provide for both the grantee's assessment of performance on activities and a Secretarial review of grantee performance to determine whether the grantee has carried out a program substantially as described in its application, whether that program conforms legally and whether the applicant has continuing capacity to carry out the approved Community Development program in a timely fashion. The Secretary is authorized to make adjustments in the amount of annual grants an applicant may otherwise receive based on the findings in the annual review, which includes the use of performance reports and data through field monitoring of local programs. This authority has not yet been used. Its use will be described in later reports.

Local Response to New Characteristics

Local response to the changes in the administration of Federal community development funds as a result of CDBG appears mixed, according to the 880 cities' responses to the Community Development Funding Survey. Forty-one percent of the cities noted a decrease in Federal red tape, 24 percent an increase, and 31 percent perceived no change. An important explanation for this variation is in the amount of recipients' prior program experience.

Those cities with limited or no previous involvement with HUD programs were more likely to perceive an increase in red tape, while the communities with considerable past HUD experience clearly noted a decrease in Federal red tape.

TABLE S.1

FEDERAL RED TAPE EXPERIENCES OF
CITIES UNDER CDBG VS. HUD CATEGORICAL PROGRAM

<u>No. of HUD Categorical Programs in Which City Participated</u>	<u>No. of Cities with This Pro- gram Experi- ence</u>	<u>% of Cities Perceiving Increase in Red Tape</u>	<u>% of Cities Perceiving Decrease in Red Tape</u>	<u>% of Cities Perceiving No Change In Red Tape</u>
0	45	35	18	29
1 - 2	375	27	38	31
3 - 5	308	24	37	37
6 or more	152	15	60	20
TOTAL	880 (4 not responding)	24	41	31

Source: Department of Housing and Urban Development, Community Planning and Development, Office of Evaluation, Community Development Funding Survey.

The response pattern for a question about Federal intervention in local decisions corresponds to prior program experience. Seventy-four percent of the localities with considerable categorical program experience noted a decrease in Federal involvement, while only thirty-one percent of the communities with no prior HUD involvement saw a decrease.

Only 16 metropolitan cities and two small hold harmless cities chose not to apply for entitlement funds, which confirms the widespread perception of minimal Federal intervention.

TABLE S. 2

Federal Intervention: Experience
of Cities under CDBG Compared to
under HUD Categorical

<u>No. of HUD Categorical Programs in Which City Participated</u>	<u>No. of Cities with This Program Experience</u>	<u>% of Cities Perceiving Increase in Federal Intervention</u>	<u>% of Cities Perceiving Decrease in Federal Intervention</u>	<u>% of Cities Perceiving No Change in Federal Intervention</u>
0	45	15%	31%	35%
1 - 2	375	11	54	29
3 - 5	308	7	59	30
6 or more	152	2	74	23
TOTAL	880 (5 not responding)	8	58	29

Source: Department of Housing and Urban Development, Community
Planning and Development, Office of Evaluation, Community
Development Funding Survey.

New Local Priorities

The combination of several categorical grants into a more general Community Development Block Grant (CDBG) program gives localities an opportunity to change their funding priorities. According to the detailed analysis of 151 city and 47 county Community Development programs, 94 percent of the localities with prior HUD categorical program involvement made some change in their highest funding priorities. Sixty-three percent of the communities have shifted their highest funding priority program under categorical programs to different activities under CDBG.

The most frequent changes are from conventional urban renewal ^{1/} to other locally identified neighborhood improvement programs. ^{2/}

Thirty-one percent of the communities did not alter their highest funding priority, but reduced the percentage of funds to their highest priority by 5 percent.

Six percent of the CDBG recipients made no major changes in expenditure patterns.

Prior to CDBG, 77 percent of the cities were giving highest funding priority to Conventional Urban Renewal and Neighborhood Development Areas. Almost half of these cities have maintained this priority, while the rest have shifted activities primarily to locally identified neighborhood areas.

FUND ALLOCATION

Methods of Distributing Funds

CDBG funds are distributed as follows:

- A. The CDBG needs formula is based on population, amount of overcrowded housing, and the extent of poverty (weighed twice). 581 metropolitan cities and urban counties that are "formula" communities receive \$1.77 billion during the first year, or 71 percent of the funds.
- B. In addition to maintaining the funding levels of formula communities, the hold harmless provision ^{3/} provides 293 smaller communities within SMSAs with \$170,963,000 and 447 nonmetropolitan communities with \$269,770,000, accounting for 18 percent of CDBG funds.

^{1/} In this context, clearance-related activities (acquisition, relocation, demolition) eligible under the Housing Act of 1949, Title I, as amended; carried out in legally defined areas.

^{2/} Programs directed toward "blighted areas" and not using eminent domain to acquire and clear properties; which do not require large-scale commitments; and which require no legally established boundaries.

^{3/} "Hold Harmless," through a formula averaging past program experience for the FY 1968-1972 period, provides formula entitlement cities funds exceeding the needs formula share up to the amount of their averaged experience. Nonmetropolitan communities are held harmless at the level of averaged FY 1968-1972 experience for continuing programs.

- C. CDBG legislation creates two categories of discretionary balances, SMSA ^{4/} and nonmetropolitan. During FY 1975, \$54,642,000 is available for distribution to small communities in metropolitan areas (2 percent of CDBG funds); \$199,000,000 was distributed to 1,179 nonmetropolitan localities (7.9 percent of CDBG funds). ^{5/}
- D. Finally, the Secretary's discretionary and urgent needs funds provided \$64,694,000 to 93 localities, accounting for 3 percent of the funds. (An additional \$20.9 million was set aside to meet urban county obligations.)

Effect of Fund Distribution Among Cities

Comparing CDBG funding patterns with the categorical programs in the base years of 1968-1972:

1. There has been an increase (794 to 1,313) in the number of small cities (less than 25,000 population) funded. The average grant amount decreased seven percent from the average categorical grant for cities 10,000 - 24,999 population; and 33 percent for cities less than 10,000 population.
2. The number of medium size cities (25,000 to 100,000 population) receiving assistance increased slightly, 457 to 492; the average grant has shown a slight decrease.
3. The number of large cities (over 100,000 population) remained constant and received a slight increase (1 percent) in average grants.
4. Fifty-eight new entitlement cities received no categorical grant assistance, but received \$10,474,000 in FY 1975. Twenty-two urban counties are now receiving \$17,378,000 in grant funds for the first time.
5. Nonmetropolitan discretionary grants were distributed to 739 localities which had not participated in any of the categorical programs.

^{4/} SMSA means Standard Metropolitan Statistical Area, as defined by the U. S. Department of Commerce, Bureau of Census.

^{5/} Of the 20 percent of the total appropriation required by the Act for nonmetropolitan funding, 57 percent is used to meet hold harmless entitlements to non metropolitan cities outside SMSAs.

NATIONAL OBJECTIVES

The Act establishes a series of related objectives for the CDBG program. Many of these national objectives overlap in intent. Similarly, many activities undertaken by recipients could lead to the achievement of several objectives. By analyzing communities' plans, budgets, and statements of intent, estimates of relative funding emphasis can be established for each objective.

The two legislative objectives given greatest emphasis by CDBG recipients are the prevention of slums and blight; and the conservation and expansion of the housing stock.

The methods used to achieve these two objectives differ from methods used in the categorical programs. Communities are:

- using less frequently the techniques of conventional urban renewal which required eminent domain to acquire and clear land, relocating former occupants;
- starting few new large-scale, long-term redevelopment programs that would require major commitments;
- emphasizing improvements to the existing neighborhood infra-structures;
- concentrating efforts in areas showing early signs of decay;
- emphasizing substantially the use of rehabilitated housing; and
- concentrating efforts in residential areas.

To eliminate detrimental conditions, CDBG recipients are:

- increasing funds for code enforcement; and
- increasing funds for selective demolition above the levels budgeted under the comparable categorical programs in FY 1968-1972.

To conserve and expand the housing stock, localities are using CDBG funds for:

- housing rehabilitation loans and grants; and
- streets, water and sewer lines, community facilities, parks, and recreation centers.

To improve and expand the quantity and quality of community services in areas in which concentrated physical development is being carried out, an average of 13 percent of CDBG funds will be used for community services. (The figure drops to 4 percent if the computation is based solely on the public services budget line item.)

Model Cities with a service orientation are most likely to continue service programs in their Model Neighborhoods, while expanding services to other areas of their communities. Sixty-eight percent of the Model Cities are continuing service programs, while 32 percent are not.

For more rational land and resource utilization and better arrangement of activity centers, localities will fund:

- open space, receiving the same attention as in the categorical programs;
- neighborhood facilities, a 30 percent increase in funding;
- single-purpose community facilities, such as centers for the elderly, day care, and health centers.

No funds have been identified that support specifically the objective of reducing the isolation of income groups. Fourteen percent of CDBG recipients have indicated that this objective is an area of emphasis in their first-year programs; others have established it as a long-term objective.

The national objective of historic preservation appears to be assigned the lowest priority. One percent of CDBG funds are targeted to such activities. Sixty-nine percent of the cities identified historic preservation as an area of low emphasis, while 7 percent say it is an area of high priority.

CDBG programs must benefit low and moderate income persons, or aid in the prevention or elimination of slums or blight, except where there are other needs having a particular urgency. Seventy-one percent of the CDBG funds are targeted to areas where low- and moderate-income persons predominate. Areas with above median income, or with urgent needs will receive 17 percent of CDBG funds. In some of these areas, funds are directed to pockets of low- and moderate-income people within a higher income area.

LOCAL STRATEGIES FOR COMMUNITY DEVELOPMENT AND HOUSING ACTIVITIES

Community Development Needs

Entitlement cities list 6/ their highest priority needs as:

- 26% improvement or expansion of housing stock;
- 19% community services and facilities;
- 15% water and sewer activities;
- 10% elimination of slums and blight;
- 10% economic development/employment opportunity;
- 5% street construction and repair supporting other CDBG activities;
and
- 4% revitalization of central business districts.

Urban counties list 7/ their highest priority community development needs as follows:

- 29% construction and improvement of water and sewer and other public facilities;
- 28% improvement or expansion of housing stock;
- 9% provision of parks, recreation, and open space; and
- 8% elimination of slums and blight.

Cities reported that 9 percent of these priority needs will be satisfied completely (over the period of the Act) by CDBG funded activities; 68 percent will be partially satisfied. The 23 percent that will not be satisfied in part or in whole are needs that require activities ineligible for funding under this Act. Overall, 76 percent of the entitlement cities and 50 percent of the urban counties reported that CDBG has increased their ability to respond to their community development needs and priorities.

6/ 880 entitlement city respondents to Community Development Funding Survey.

7/ 36 urban county respondents to Community Development Funding Survey.

Community Development Strategies

In low- and moderate-income areas, receiving 71 percent of the the entitlement funds, localities are emphasizing conventional urban renewal-type activities, 8/ combined with housing and supportive public works. These activities account for 48 percent of CDBG allocations to low- and moderate-income neighborhoods. The stress on housing rehabilitation in these areas is more than twice the rehabilitation funding for all other areas.

In median income areas, entitlement communities are emphasizing conventional renewal-type activities but are increasing expenditures to prevent housing deterioration, to support public works projects, and to provide service-related facilities and equipment.

In the above median income areas of entitlement communities, cities also stress conventional urban renewal-type activities, but are using more money for public works, water, sewer, open space, neighborhood facilities, and service-related facilities and equipment.

Minority neighborhoods specifically have been allocated 57 percent of the CDBG funds. An undetermined portion of funds spent citywide also benefits minority group residents.

The highest priorities in both minority and non-minority neighborhoods are clearance-related activities, public works, and housing. In minority neighborhoods, emphasis is being placed upon renewal-related activities and public services.

Cities plan to utilize 50 percent of all CDBG entitlement funds in Model Cities Neighborhoods and Urban Renewal/NDP areas. Cities are extending many of the same type of activities found in the Model Cities and Urban Renewal program into other neighborhoods.

Cities are also continuing earlier strategies in Urban Renewal/NDP areas. Sixty percent of Urban Renewal/NDP area funds will support clearance, demolition, and relocation. Some funds (4 percent) are being programmed for public service programs in these areas.

In existing Model Neighborhood areas, the emphasis remains on continuation of service programs (44 percent).

In other blighted neighborhoods, cities are utilizing a varied distribution of activities designed to "arrest blight," through housing (26 percent); demolition, clearance, and relocation (22 percent); and supportive public works (21 percent).

8/ Clearance-related activities eligible under the Housing Act of 1949, Title I, for conventional urban renewal projects: land acquisition, clearance, and relocation.

In central business districts, over half of the funds are earmarked for public works. Additional expenditures are for clearance-related activities.

Using CDBG Funds as Leverage

A small sample of entitlement communities are using CDBG funds to leverage additional funds, through private investment, State and local taxes and bonds, and other Federal grant-in-aid programs. Officials from 15 cities anticipate leveraging amounts equivalent to 87 percent of their CDBG entitlement; nine urban counties expect to leverage 6 percent of their entitlement grants.

Forty percent of these additional funds are anticipated from the Federal Government, predominantly the Department of Health, Education and Welfare. Other sources included local and state governments and some funds from private investments, particularly for economic development.

These additional funds are to be used for a variety of projects such as redevelopment, economic development, and public services.

Housing Needs

Each CDBG recipient develops a "housing assistance plan" that identifies the condition of the housing stock and the housing assistance needs of lower-income persons. In housing assistance plans, communities reported an average 11 percent "substandard" housing, as locally defined, with a range of one to 92 percent. Seventy-five percent of these substandard units are reported as suitable for rehabilitation.

An estimated 22 percent of the households in the CDBG localities need housing assistance. Over half of this housing assistance need is in smaller, non-elderly households, 29 percent of which are minority. One-third of the need is in smaller elderly and handicapped households (17 percent minority). The remainder of the need (13 percent) is in large families, one-half of which are minority.

Housing Strategies

Housing assistance will be distributed among the household types as follows:

- 46% to small families;
- 38% to elderly and handicapped; and
- 16% to large families.

Four-fifths of the communities combined programs to produce a balanced approach dealing with more than one household type. Almost half the communities planned for all three types of housing assistance, while about one-third combined two types of housing assistance.

Coordination of Housing and Community Development Activities

Entitlement cities coordinated the location of new and rehabilitated housing efforts with community development activities in 61 percent of all census tracts designated for housing assistance. Approximately 66 percent of CDBG funds will be used in these census tracts. Coordination of each housing type shows:

	<u>% of Tracts Coordinated</u>	<u>% CDBG Funds</u>
New Construction	54.3% of the new construction tracts are coordinated with.....	16.9%
Rehabilitation	66.1% of the rehabilitation tracts are coordinated with.....	26.5%
Combined New Construction and Rehabilitation	61.2% of the combined tracts are coordinated with....	20.3%

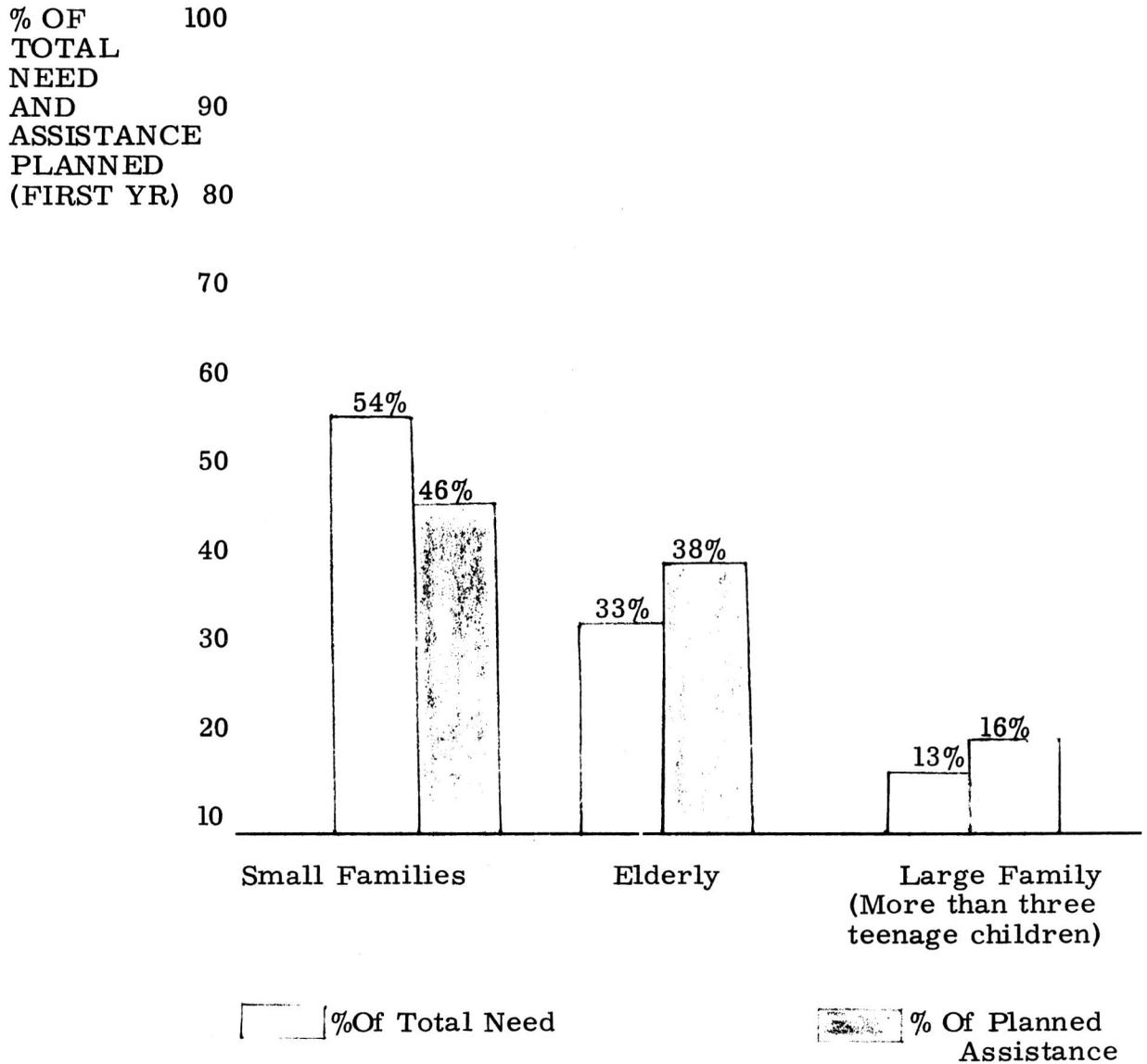
A total of 61.4 percent of the housing tracts are receiving 63.7 percent of the Block Grant funds for the 131 entitlement cities studied.

Cities coordinated housing activities with community development activities to achieve:

- best use of existing public services and facilities; land use compatibility; capacity of public utilities; availability of public improvements; and access to recreation and public transit.
- complementary programming if sites required public works prior to housing construction or rehabilitation; or if potential residents required housing-related training.

CHART S. 1

ASSISTANCE VS. NEED IN THE FIRST YEAR OF THE CDBG PROGRAM



Neighborhoods slated for both housing assistance and community development are most likely to be in the low- to moderate-income areas (76.3 percent), while neighborhoods scheduled for housing only tend to be in the moderate-to high-income areas (58.1 percent).

DISCRETIONARY FUNDING

Three discretionary funds are available to states and general local government: urgent needs fund; the Secretary's fund; and SMSA and nonmetropolitan discretionary balances. Fiscal year 1975 allocations for these three types of discretionary funds totalled \$352.2 million.

- SMSA Discretionary Balance. The unexpected qualification of 73 counties as "urban counties" eligible for entitlement funding created a shortage of SMSA balance funds in FY 1975. On March 19, 1975, HUD announced suspension of the SMSA discretionary balances grant program until funding could be established. The program was reinstated following the appropriation of \$54.6 million in mid-June for SMSA balance funding, earmarked for non-entitlement communities .9/ As of December 5, 357 grants totalling \$29,667,000 had been approved out of the 947 applications filed. Total funding requests amount to \$127.4 million, more than twice the amount available.
- Nonmetropolitan Discretionary Balance. FY 1975 funds available for nonmetropolitan discretionary grants totalled \$199,694,000. As of December 5, 1975, cities, counties, and townships had filed 2,270 applications requesting \$478 million. 1,174 applications had been approved for grants totalling \$199 million. Another 998 largely unsolicited applications had been denied funding; these represented requests of more than \$234 million. Ninety-eight applications still were pending as of December 5; the amounts requested came to \$22 million, against a fund balance of \$.695 million not yet distributed out of the FY 1975 allocation.

A comparison of purposes for which entitlement funds were budgeted partially reflects both differences in needs between SMSA and nonmetropolitan areas and differences in their past urban renewal-community development-housing experience. Entitlement recipients emphasized urban renewal, rehabilitation, and provision of public services; nonmetropolitan discretionary balance fund recipients favored water and sewer projects and neighborhood facilities.

Urgent Needs Fund

Available to states and all units of general local government having incomplete categorical grant programs, these funds in FY 1975 covered

9/ Second Supplemental Appropriation Act of 1975, P. L. 94-32.

needs not adequately met through the formula entitlement or hold harmless provisions of the Act to:

- complete previous HUD-approved urban renewal projects in a timely fashion, where block grant funds were insufficient for this program;
- avoid a significant decrease in activity levels for Planned Variations cities for programs growing out of the Demonstration Cities and Metropolitan Development Act of 1966; and
- meet increased costs due to circumstances beyond the community's control, where a community would be unable otherwise to complete water and sewer, neighborhood facilities, or open space projects.

Grants totalling \$50 million were made in FY 1975: \$35.9 million was granted to 37 applicants for completion of urban renewal projects; \$10.2 million was awarded 13 "planned variation" cities; \$1.0 million was allocated to 9 applicants for neighborhood facilities projects; \$2.9 million went to two applicants for water and sewer projects.

Secretary's Fund

The Secretary's Fund consists of 2 percent of the total CDBG appropriation, excluding urgent needs funds and less \$50 million authorized by Section 103(a)(2) for hold harmless needs and grants to smaller communities within SMSAs. For FY 1975, the Secretary's Fund amounted to some \$47.9 million. Approximately \$21 million of this total was designated for hold harmless grants to cover the shortfall of funds resulting from the qualification of a greater number of urban counties than had been anticipated.

\$46.6 million in the Secretary's Fund was allocated to four purposes:

New Communities fund	\$13.1
Inequities Fund	\$26.3
Trusts, Territories, and Possessions Fund	\$ 3.3
Innovative Projects Fund	\$ 3.9

A fifth purpose, areawide programs, was not allocated funds for FY 1975. \$1.3 million was budgeted for the sixth authorized program area, Federally recognized disasters, but no grants had been made for that purpose as of December 15, 1975. Such grants are available only for emergency community development needs not covered by the Federal Disaster Assistance Administration's programs.

URBAN COUNTIES

The community development block grant legislation entitles urban counties in recognition of their population and their possession of powers to undertake essential community development and housing assistance programs. Of 84 counties meeting the 200,000 population threshold and 75 applying, 73 county governments were qualified as urban counties during the first year of CDBG program operation.

The essential powers test for designation as an urban county requires that the county must be authorized under State law to undertake essential community development and housing assistance activities in its unincorporated areas which are not units of general local government.

The urban county has authority to perform such functions in incorporated areas either under State law or through agreements with other cooperating local government jurisdictions. These agreements must express the intention of the urban county and its incorporated jurisdictions to cooperate in essential community development and housing assistance activities, specifically urban renewal and publicly-assisted housing.

Some communities chose to participate in the program because:

1. participation offered a better chance to obtain guaranteed funding, compared to the uncertainty of competing for the limited discretionary funds;
2. they lacked their own resources to put together and administer a community development program;
3. early indications led many communities to assume a shortage of discretionary funds.

In all, 73 urban counties and 1,875 cooperating local incorporated units will receive \$119.2 million in FY 1975 funds.

All the units of local government eligible for and desiring such participation appear to have been accepted by the sponsoring urban county as cooperating units in applications for entitlement funds during FY 1975.

Some cities declined participation with the urban county because:

1. cities did not want to be included in a county master plan, preferring to seek discretionary funding;
2. cities did not like the required provisions of the cooperation agreement;

3. cities were not convinced that there would be guaranteed benefits for them;
4. cities feared loss of autonomy; or
5. cities wanted benefits that the county was not prepared to commit.

CONTINUING ACTION TOWARD PROGRAM IMPROVEMENT

The community development block grant program alters traditional approaches and relationships between Federal and local governments in fundamental ways. This is evident in the role of local governments, expanding their discretion in selecting the specific combination of objectives they consider most relevant to local needs.

In converting this new design for intergovernmental relations into community development programs, HUD and its local partners discovered unintended complications and the need for new interpretations. Continuing attention to programmatic issues allowed prompt problem resolutions. Further adjustments will be necessary as this system matures and as all the parties to Federal local partnership gain program experience.

Among the areas needing the most creative responses are:

- a comprehensive study of effective, locally-developed means for environmental review and decision making for community development and housing programs;
- definitions of eligible program activities consistent with national policy goals yet responsive to varying local needs;
- better methods for communities to estimate present and future housing assistance needs, particularly for families "expected to reside" in community; and to set appropriate local goals, assisting coordinated delivery of available Federal, State, and local housing resources;
- improved means for HUD to facilitate the transition from old categorical grant-in-aid programs to the new block grant program;
- administration of discretionary grant programs that will ensure funding allocations closely attuned both to community needs and capacity to meet such needs;
- a program of evaluation and research that will realistically assess present program performance and generate more effective strategies for the future;

- encouraging improvement of areawide organizations and their capacity to serve local general government.
- areawide solutions to common community development and housing problems;
- a more prominent role for State governments in CDBG, in particular, greater State participation in funding locally identified goals and priorities for community development; and
- a monitoring and review approach that avoids the restrictiveness of the Federal categorical programs, yet assures protection of legitimate Federal interests in national policy objectives.

Citizen Participation

Forty-six percent of 880 respondent cities indicated in the Funding Survey that the citizen participation process was "most influential" in determining the direction and development of their community development block grant application. Seventy-five percent of these cities indicated an increase in citizen participation when compared with the application process for HUD grant-in-aid programs.

Early information indicates that all cities agreed to comply with legal requirements for citizen participation; all held at least two public hearings. Cities communicated required information to citizens through the news media, both in legal notices and advertisements providing information on programs, funds available, range of activities, and tentative plans.

Existing urban renewal Project Area Committees and Model Cities Citizens Committees did not dominate CDBG citizen participation; they gave way to communitywide organizations or processes. Perhaps as a result, 56 percent of the 880 cities described heightened competition between groups wanting projects funded.