

**WRITTEN STATEMENT OF  
ASSISTANT SECRETARY PAMELA H. PATENAUDE  
U.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**



**FIELD HEARING ON  
“COMMUNITY DEVELOPMENT BLOCK GRANTS (CDBG): THE  
IMPACT OF CDBG ON OUR COMMUNITIES”  
BEFORE THE  
HOUSE SUBCOMMITTEE ON HOUSING AND  
COMMUNITY OPPORTUNITY  
U.S. HOUSE OF REPRESENTATIVES  
LOS ANGELES, CALIFORNIA  
APRIL 12, 2006**

Good morning. I am pleased to be here in Los Angeles on behalf of Secretary Alphonso Jackson.

Thank you, Chairman Ney and Ranking Member Waters for scheduling this field hearing to discuss the reform of the Community Development Block Grant (CDBG) program. As Assistant Secretary for the Office of Community Planning and Development, I am responsible for the administration of the CDBG Program.

The CDBG program has been the Federal government's primary vehicle for assisting state and local governments in undertaking a wide range of community development activities aimed at improving the lives of low- and moderate-income families. During the past three decades, over 113 billion dollars have been appropriated for the CDBG program. These funds provide a ready source of funding for housing rehabilitation, public services, infrastructure, and economic development activities.

The President's Fiscal Year 2007 Budget retains the CDBG program at HUD and proposes a funding level of just over 3 billion dollars, with the recognition that the program's impact has become diffused over time. The upcoming CDBG reform proposal will improve CDBG's ability to target community development needs and demonstrate results. To achieve these reforms, the budget identifies a series of legislative initiatives that, if enacted, will strengthen and sustain the CDBG program in the future. The implementation of this reform package is essential to ensure that CDBG funds flow to the Nation's neediest communities to expand economic opportunity in measurable ways.

These revisions address the CDBG formula, implementation of a CDBG challenge grant, consolidation of duplicative programs and improved performance measurement requirements that will better enable HUD and its grantees to demonstrate the benefits of the CDBG program.

Revising the CDBG formula is very important. The CDBG formula has been essentially untouched since the 1970's. Over the past decade, we have witnessed steady erosion in the ability of the formula to target CDBG funding to community development need. Demographic changes, development patterns and other factors have created significant distortions in the distribution of CDBG funds.

In February 2005, HUD released a study that identified two serious deficiencies that result from the current formula. First, many communities with lesser need for CDBG funds receive much more per capita than many communities with greater need. Second, many communities with similar needs receive very different per capita amounts.

Three elements in the current CDBG formula create the funding inequities. To preface this discussion, please understand that there are two Formulas - A and B - and grantees received the benefit of the formula that provides them with the largest grant.

The first problem is that the most needy grantees funded under Formula A do not get substantially more on a per capita basis than the least needy grantees. This flatness is due primarily to the 25 percent weight on population in Formula A.

Second, Formula B grantees of similar need often get very different per capita grant allocations. This relative inequity primarily results from the pre-1940 housing variable, which allocates substantial amounts to some communities that have old housing but otherwise have a low level of community development need.

Third, Formula A grantees get less than similarly needy Formula B grantees. This inequity results from the share of the need represented by the variables in Formula A being spread across both Formula A and Formula B grantees, while the share of need represented by growth lag and pre-1940 housing in Formula B is largely concentrated among Formula B grantees.

For example, here in California, the cities of Santa Monica and Santa Maria have approximately the same population. Under the current formula, they both receive about 1.3 million dollars. However, in terms of need, they are very different. Santa Monica, with a per capita income of \$43,000, has a relatively low level of distress while Santa Maria, with a per capita income of only \$14,000 has significantly more distress and thus has greater community development needs. Under the formula the Administration will propose, Santa Maria's grant would increase to \$1.6 million while Santa Monica's grant would fall to \$750,000.

I think we can all agree it is critical to restore equity to the distribution of funds to improve targeting and preserve the fairness of the CDBG program.

The second major CDBG initiative proposed in the President's Budget is the establishment of a CDBG Challenge Fund. This fund would provide CDBG grantees with the opportunity to obtain additional funding to carry out community and economic development activities in distressed neighborhoods to improve the quality of life in those neighborhoods.

In order to be considered for challenge grant funds, grantees will be required to have a strategy that concentrates public and private investment in distressed neighborhoods and have a track record of investing its CDBG funds in those neighborhoods.

In addition, to be eligible, communities will be required to demonstrate clear measures they have taken to support economic opportunity in such neighborhoods that show the strongest performance on this and other measures amount from the Challenge Grant Fund augment.

A third element of the reform consolidates programs, such as the Brownfields Economic Development Initiative (BEDI), Rural Housing and Economic Development Program, and the Section 108 Loan Guarantee program into the overall CDBG formula program. The consolidation will eliminate duplicative activities and give communities even more

flexibility. In almost every case, the activities eligible for assistance under these programs can be funded through the CDBG program.

For example, the Section 108 and BEDI programs are authorized through the CDBG statute and may support most of the same eligible activities. In July 2004, HUD issued a proposed rule that would make it easier to carry out brownfields activities through the CDBG program. We hope to finalize this rule in the next several months.

Finally, HUD is implementing its new performance measurement framework to establish clear, measurable goals and community progress indicators for our formula programs. This is a part of a broader effort to improve economic and community development programs and develop a common performance framework for those programs across the federal government. HUD published the final notice on performance measurement in the Federal Register on March 7th. This collaborative effort of more than two years involved grantees, public interest groups and the Office of Management and Budget. HUD will be conducting 15 workshops and information sessions across the country this summer to ensure the successful implementation of the framework.

To guarantee the effectiveness and viability of the CDBG program in the 21st Century, the Department's legislative proposal on CDBG will include provisions to strengthen requirements with regard to performance measurement to hold grantees accountable for their own goals. While implementation of the framework is a significant step forward, HUD must have the tools to hold grantees accountable in cases where they do not achieve results.

Critical to the success of this performance measurement effort are improvements to HUD's Integrated Disbursement and Information System, commonly referred to as IDIS. We are working with HUD's Office of the Chief Information Officer to expand the ability of IDIS to collect performance data on the effectiveness of our formula programs and to continually ensure internal controls for accountability. This is one phase of the overall modernization plan that will transition the system to a state of the art technology solution.

A second IDIS initiative will be the release of additional enhancements that will transform the current, antiquated version of IDIS into a user-friendly, web-based system in the fall of 2006. These enhancements to IDIS will not only improve the functionality of the system for grantees but will also be the vehicle for collecting the data necessary from its programs and sub-grantees to demonstrate the effectiveness of the CDBG and other formula programs in order to comply with initiatives such as the President's Management Agenda and the Government Performance and Results Act (GPRA).

Let me also mention the important role that CDBG performs with respect to disaster recovery. Historically, CDBG has played an important role in providing critical financial assistance to communities following natural and man-made disasters. Since 1992, Congress has allocated more than 16 billion dollars for CDBG disaster recovery assistance. These funds have supported recovery efforts following the Midwest floods of

1993 and 1997, the 1994 Los Angeles earthquake, the Oklahoma City bombing and the September 11, 2001 terrorist attacks.

To aid the recovery of the Gulf Coast in the aftermath of the devastating hurricanes of 2005, Congress appropriated 11.5 billion dollars in CDBG supplemental funding for rebuilding efforts. Recently, President Bush requested an additional 4.2 billion dollars in CDBG supplemental funding for the State of Louisiana for housing and flood mitigation.

CDBG helps communities across the nation address a variety of needs. However, reforms are necessary to improve the ability of the program to improve and expand the economic opportunities of the lives of low- and moderate-income Americans. By revising the CDBG formula, adding a Challenge Fund, consolidating programs that duplicate efforts, and implementing a new performance measurement framework, we will successfully address the many concerns regarding the CDBG Program.

I thank you for this opportunity to speak with you about the Administration's proposals to reform the CDBG Program, and I look forward to answering your questions.