

Welcome to the US Department of Housing and Urban Development's presentation entitled Community Development Block Grant Formula and Appropriation Process.

This presentation includes two sections. The first explains how and when CDBG funds are allocated to grantees; the second explains why CDBG grant amounts can vary over time.

Choose which of the sections you would like to watch by selecting one of the options on screen.

Have you ever wondered how CDBG grantees receive funds?

Where does the money come from?

How long does it take to get your grant?

Join us for a few minutes as we share a scenario with you that explains the Appropriation Process, that is, the process by which Congress determines the funding amount for the CDBG and other Federal programs.

In this scenario, Mayor Jones, the newly elected Mayor of Anytown USA invites Mary, Anytown USA's Community Development Director, to discuss some questions raised by city council members about decreases in the city's Community Development Block Grant funding.

They also discuss the delays in receiving this year's funding.

Mary, our CDBG grant has gone down for the last two years, even though the total amount of funds appropriated by Congress for the CDBG program has stayed roughly the same.

Not only that, our grant program year was supposed to start on January 1st, but it's now April and we still haven't received our CDBG funds and some of our subrecipients are inquiring about funding.

I met with Governor Chavez at the state capitol last week, and he said he's facing a similar problem with state CDBG funding.

When can we expect the funding? I've got a council meeting next week and they've been calling me about it. What happened?

Mayor Jones, there are a number of significant steps that affect both the timing and the amount of our CDBG funds, and the same factors affect the state CDBG program as well.

My staff has created some graphics to explain the appropriation and allocation processes that you can explain at next week's council meeting. The graphics explain how the money gets from Congress to our city, which affects the timing of our grant. The process is similar for counties and for states.

By sharing this information with the council members, we may be able to alleviate some of our subrecipients' concerns.

To address the timing issue, there are two major steps that must be completed before we get our CDBG allocation, which is the amount of CDBG funds we receive each year:

Step 1. Congress has to appropriate funding for CDBG; and

Step 2. Once the President signs the appropriations bill into law, HUD has a number of things to do before we can receive our money.

How does all that work?

Well, it starts with the Congressional appropriations process.

The target date for the completion of this process is the start of the Federal Fiscal Year on October 1st.

But in recent years the appropriations process generally has not been completed by this date, right?

That's right, in several recent years, the Bill was not signed into law until late in the year or early in the next fiscal year. For example, the FY fiscal year 2015 appropriation was not signed into law until December 16th, 2014.

Let me review the general steps in more detail.

Step 1: Within the overall Transportation and Housing and Urban Development or an Omnibus appropriations Bill, Congress proposes to appropriate funds to the Community Development Fund.

Step 2: Once the President signs the appropriations bill into law, HUD goes through a series of steps which can take up to 90 days.

HUD submits the apportionment—the distribution of funds for CDBG—to the Office of Management and Budget, or OMB, for approval which can take up to 30 days.

The CPD budget office allots funds within HUD's accounting system

HUD determines whether there are any reallocations from prior years and adds them to the appropriation amount.

HUD runs the formulas for all 1200+ grantees (all states plus entitlement communities and Insular areas). Formulas are also run for CPD's other programs: the HOME program, the Emergency Solutions Grants program, and the Housing Opportunities for Persons with AIDS program.

HUD then runs the pro-rata reduction to bring the grants in line with the appropriation.

HUD does some internal processing and accounting. HUD also verifies grantee and Congressional district information.

The HUD CPD field office prepares grant agreements.

Congressional notification takes place.

And funds are released.

In our case, we finally got our CDBG allocation amount in February, but we couldn't submit our

Consolidated Plan and Annual Action Plan to HUD until we had that figure.

We can cover some of this year's program costs using the CDBG Pre-Award provision, which, if approved by HUD, will allow us to use local funds to cover some expenses back to the start of our program year, especially for public services. We will get reimbursed after the grant agreement is signed.

Oh, good! So, we can get a head start?

Yep. HUD has 45 days to review and approve our Action plan. So we should have our grant agreement after that point. In the meantime, we'll be taking care of quite a few administrative tasks and preparing and executing contracts with our partners.

Thank you, Mary. I have a better understanding now of the timing of receipt of our CDBG funds.

Mary, you've covered the timing of receipt of our CDGB allocation. Now let's talk about why our money got cut this year even though the Congressional appropriation for CDBG was roughly the same as last year.

Sure. The CDBG Dollar starts with Congress during their annual appropriations process.

To give you an example, let's say that Congress appropriates \$3 billion to the Community Development Fund. This is just an example, Congress can and does appropriate more or less than that.

Off the top of the \$3 billion, HUD takes a set amount, either specified in the law by a dollar amount or percentage for the Indian Community Development Block Grant Program. In recent years, that amount has been \$70 million. HUD also deducts \$7 million for the Insular Areas Program as required by statute.

That leaves \$2.923 billion for the Entitlement and State Programs.

The Entitlement Program is for larger cities and urban counties and gets 70% of the total funds available.

The State CDBG Program gets the remaining 30 percent, and provides CDBG dollars through states which fund smaller cities and rural areas that are not eligible to participate in the Entitlement Program.

For the Entitlement Program, there are two formulas: "A" and "B". HUD calculates the amount of funds that each entitlement grantee would receive under each of the two formulas.

Formula A calculates funds to a jurisdiction based on its metropolitan area's share of 3 factors across all US metropolitan areas. The factors are:

1. population, weighted at 25 percent;
2. people in poverty, weighted at 50 percent; and
3. overcrowded units, weighted at 25 percent

Formula B also calculates funds to a jurisdiction based on its metropolitan area's share of 3 factors across all US metropolitan areas, but the factors are somewhat different. The Formula B factors are:

1. population growth lag since 1960, weighted at 20 percent;
2. people in poverty, weighted at 30 percent; and
3. pre-1940 housing units, weighted at 50 percent.

After HUD runs the calculations using the two formulas, it allocates the grantee the larger amount of the two. However, because HUD uses the larger amount, when it adds all of the grantees' allocations together the total is higher than the amount of CDBG funding available for the Entitlement program. So HUD must recalculate the figures using a pro-rata reduction to reduce the total to the funding level for the Entitlement Program.

Which formula gives us the most funding?

We're a Formula A grantee.

Because of that, our metropolitan share of people in poverty, weighted at 50%, is the largest factor. As you know, the number of people in our city who live in poverty has decreased considerably during the last 5 years while the total across all metropolitan areas has remained the same. I'll explain how that affected our grant in a moment – but first, would you like to hear about how HUD allocates funds to the state program?

I sure would! I'm meeting with Governor Chavez next week and I can impress him with all I'm learning.

OK. The State CDBG Program works similarly to the Entitlement Program in that HUD calculates the state allocation using two formulas and uses the result that is the greater of the two.

The formulas are almost identical, but the state Formula B has Population as a variable instead of Growth Lag.

Again, HUD applies a pro-rata reduction to each allocation to bring the total down to the total amount of funding available for the State CDBG Program.

The States determine how they will distribute CDBG funds to their small cities: usually through a competitive grant process.

Four border states are required by law to set aside up to 10% of their funds for Colonias, areas with great needs in housing and infrastructure located along the border with Mexico. HUD sets the Colonias set-aside percentage annually.

OK, that all makes sense. But I still don't understand why our grant amount went down.

Even if the amount that Congress appropriates to CDBG stays the same, as it has recently, there are two factors that impact the allocation of CDBG dollars to grantees like us:

The first is that the data used in the formula calculation can change annually. HUD used to use the Decennial Census as the data source for many of the variables in the CDBG formula. However, there is now a more up-to-date source provided by the Census Bureau – the American Community Survey or ACS. This allows HUD to update the data each year using a rolling average of the most recent 5 years of ACS data. If the latest ACS data indicate that one or more of the formula variables has changed for a particular community, the grant amount may also change up or down.

That's what happened to our grant this year.

Our economy has been booming for the last couple of years with those new factories opening in the north side of town; which were assisted, you'll remember, with CDBG economic development loans. So many new jobs were generated that our poverty rate has declined. This reduced our grant this year.

I understand. But what else could cause a reduction in the grant amount?

The second factor is the number of grantees participating in the program from year to year. Each year, new grantees become eligible and, if they choose, are added to the Entitlement program. New grantees added to the program means that existing grantees will share a slightly smaller amount of the CDBG appropriation.

In an average year, 5-10 new communities qualify as new entitlement grantees. In some years, this number may be higher. The number of new grantees can result in a reduction in a community's allocation.

Well, while I'm disappointed with the reductions, I'm impressed with your knowledge of the CDBG allocation process! Thanks for the briefing. I'll be in a better position to explain the reductions and timing issues if I need to at the council meeting tonight.

Oh, and I'll need to give them some HUD references in case they ask.

Sure. There is plenty of material online on the HUD Exchange, located at [hudexchange dot info](http://hudexchange.info). And the appropriation and program allocations are located within the website.