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STATEMENT OF
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BEFORE THE

SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

ON

GENERAL ACCOUNTING OFFICE VIEWS ON PROPOSED REVISIONS
TO THE REGULATIONS GOVERNING THE COMMUNITY
DEVELOPMENT BLOCK GRANT PROGRAM

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to assist your Subcommittee in considering the impact of the Department of Housing and Urban Development's (HUD's) recently proposed revisions to the regulations governing the Community Development Block Grant (CDBG) Program. We are directing our remarks to proposed regulation changes which (1) eliminate the application review process, (2) may lessen the emphasis on low- and moderate-income benefits, and (3) impair HUD's ability to evaluate and report on the overall effectiveness of the program.

The General Accounting Office has evaluated several aspects of the CDBG Program in recent years. We have issued (or are about to issue) 5 reports which are particularly relevant to the discussion today. These reports are:

--Our April 30, 1981, report entitled "The Community Development Block Grant Program Can Be More Effective In Revitalizing The Nation's Cities,"



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--Our September 23, 1982, report entitled "Lessons Learned From Past Block Grants: Implications For Congressional Oversight,"

--Our November 3, 1982, report entitled "HUD Needs To Better Determine Extent Of Community Block Grants' Lower Income Benefits,"

--Our April 13, 1982, report to Senator Dodd on the Proposed Rental Housing Production and Rehabilitation Act of 1982 (S. 2171), and

--A report to be issued this month entitled "Block Grants For Housing: A Study Of Local Experiences And Attitudes."

The CDBG Program's primary objective is to carry out community development activities which principally benefit low- and moderate (lower) income persons. Various studies and statistics suggest that generally the program has been well targeted to these persons. Nevertheless, we have found some problems in this regard, as well as with the reliability of HUD's information on targeting, and the data collected at the local level.

It is difficult to project the impact of HUD's proposed revisions to the CDBG regulations. However, it appears that the changes would make it easier for grantees to shift program benefits away from lower income persons if they wished to do so. The changes would also make it more difficult for HUD to measure the extent to which the overall program is benefiting low- and moderate-income persons. In our past reports we have urged HUD to obtain better information on grantees' compliance with program

objectives. We have recommended ways in which HUD could do so, thus facilitating national program evaluation.

COMMUNITY DEVELOPMENT
PRINCIPALLY BENEFITING
LOWER INCOME PERSONS
REMAINS PRIMARY OBJECTIVE

The CDBG Program's primary objective, as stated in its authorizing legislation, is the development of viable urban communities by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low- and moderate-income. This objective remains unchanged by the 1981 amendments to the Act. HUD's proposed revisions to the CDBG regulations continue to reflect the Act's primary objective. However, these proposed changes alter the relationship between the program's primary objective and other program purposes in a way which appears to deemphasize the need to target benefits to lower income households.

The Act provides that, consistent with the primary objective, the assistance provided under the program is for community development activities which are directed toward nine specific objectives. These cover a wide variety of housing and community development activities, ranging from eliminating slums and conserving the housing stock to economic development and energy conservation. The legislation also requires grantees to certify that they have given maximum feasible priority to activities which either:

- benefit lower income persons or
- aid in elimination of slums or blight.

Other community development needs may be addressed if they have a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community, and if other financial resources are not available to meet those needs. HUD refers to these as the program's three broad national objectives, although the Act does not specifically identify them as objectives.

The 1981 amendments to the Act eliminated much of the detailed program information grantees previously submitted in their application. The revised requirements provide for a statement of the grantee's community development objectives, projected use of funds, and certifications that the grantee is in compliance with various legal requirements. HUD's funding decision is now based on its satisfaction with the grantee's certifications of compliance, rather than its approval or disapproval of specific planned activities.

The Act continues to provide for both a performance report from the grantee and an annual review or audit by HUD. HUD may make adjustments in subsequent years' grants based on findings from its reviews of the grantee's past program performance. The overall result of these changes is to shift program oversight from the application to HUD's grantee monitoring and performance reviews.

HUD has said that a grantee's program complies with the Act's primary objective when each of the grantee's individual activities meets one of the three broad national objectives, and as the regulations are currently drafted, HUD will no longer review the

extent to which a grantee's overall program benefits lower income persons. HUD would consider lower income benefit information relevant only for activities which the grantee identified as falling under that particular broad national objective. Thus, HUD would not review the benefits to lower income persons of an activity which the grantee categorized as eliminating slums and blight. It appears to us that this approach deemphasizes benefits to lower income persons as the overall objective of the program.

IMPACT OF THE PROPOSED
REGULATION CHANGES
DIFFICULT TO PROJECT

HUD has stated that the proposed regulation changes will provide grantees greater flexibility in administering their programs. It is difficult to predict how grantees will react to such changes, but we believe the changes will make it easier for grantees to shift their programs' targeting away from lower income persons if they should wish to do so. We also believe HUD will have difficulty in determining whether or not such a shift has occurred since neither the grantee's certifications nor the HUD review will provide detailed benefit information for the overall program.

PAST CDBG PROGRAMS SHOW
REASONABLY GOOD TARGETING,
BUT SOME PROBLEMS EXIST

Reviews of past years' CDBG programs suggest that program benefits have been reasonably well targeted to lower income persons. However, our work has identified several problems relating to targeting and to the reliability of data used to report program beneficiaries.

Many studies have been completed in recent years examining aspects of the CDBG Program's targeting of benefits to lower income persons. Our September 1982 report on past block grant experiences discussed several of these studies. They covered different periods between fiscal years 1975 and 1978 and reported that from 54 to 66 percent of CDBG benefits were targeted to lower income persons. Another HUD-sponsored study on CDBG funded residential housing rehabilitation reported that 96 percent of those assisted were lower income households.

Our current study of the housing block grant concept used a nationwide questionnaire covering entitlement cities and counties. Grantees who could provide us with detailed housing benefit data under CDBG indicated that over 90 percent of housing benefits were targeted to lower income persons.

While these experiences suggest that past program benefits have been reasonably well targeted, they do not provide a reliable basis for judging whether or not this targeting will continue. Moreover, while the past record indicates general success in targeting, our work did identify several problems. Our 1981 report raised some questions about grantee funding decisions, program designs, and controls. For example, we found that

- some cities spread grant funds widely, thus diluting the impact they may have on the cities' revitalization;
- rehabilitation funds were sometimes spent for low priority improvements and were not always provided to persons in the greatest need;

--at times there was insufficient information to determine whether funds were properly spent for eligible activities.

Accurate benefit data is important if good targeting is considered an important overall objective. In our November 1982 report, however, we found that the benefit information HUD uses in its block grant annual report to the Congress may not be reliable because:

--Cities used inconsistent methods of identifying and reporting beneficiaries.

--HUD's oversight did not identify grantees' problems or verify performance information.

--HUD's report covers only projected benefits of planned projects, not actual benefits from completed projects.

Our current housing block grant study found that CDBG entitlement grantees often lacked a variety of detailed data at the local level on program activities and benefits.

--About 20 percent of the grantees having housing assistance activities could not provide enough detail on families receiving assistance to characterize the beneficiaries as lower income.

--A substantial number of local officials indicated that certain other data related to their community's housing conditions, housing needs, or the extent of CDBG assistance provided, was also unavailable.

PROGRAM INFORMATION AND EVALUATION

Adequate program evaluation and management information is needed to support sound program management and Congressional

oversight. At the national level HUD and the Congress should be able to judge how well the CDBG Program meets its objectives. Local governments, too, must have adequate information if they are to manage their programs effectively. With regard to the new block grants created in 1981, we concluded in our September 1982 report that evaluation systems must be applied uniformly across the administering governments if comparable data are to be collected and analyzed. We believe this is equally true of the CDBG Program as it is now being restructured as a result of the 1981 amendments.

The Act requires HUD to report to the Congress after each fiscal year on the progress made in accomplishing program objectives. For this report to be meaningful, HUD must have timely and reliable information on program accomplishments. This information can be collected most efficiently at the local level by the grantees who implement the program.

Our past research has shown that when records are kept in varying formats and at varying levels of detail, it is extremely expensive and time consuming to aggregate and analyze the data on a national basis. Indeed, it may well be impossible to do so except through a separate study. With regard to the CDBG Program specifically:

--Our current study of all CDBG housing activities has shown that grantee recordkeeping is often inadequate to identify the extent of specific activities or to describe program beneficiaries. This made it extremely difficult and expensive to develop a national picture of the program.

--Our November report on CDBG benefit reporting found that when grantees do report aggregate benefit information, HUD's monitoring of grantee performance reporting is inadequate to identify errors in their benefit information.

Tracking federally supported activities, recipients, and dollars to determine whether these advance national objectives has historically been of central interest to the Congress. Regardless of the details of the final CDBG regulations, if the Congress wants to insure that such evaluative information is available in the future, it may be necessary for you to require that it be collected. This, in turn, may involve requiring:

1. That grantees keep records on program accomplishments and, in particular, on beneficiaries in a standard format specified by HUD, and
2. That HUD test the reliability of this data, aggregate it, and include it in the annual report on CDBG.

As a separate matter, you may wish to consider the potential value of mandating that HUD develop a system to evaluate various aspects of the CDBG Program. If you choose to pursue this approach, we would be pleased to work with you and with the Department to help develop the details of such a requirement.

This completes my prepared statement. My colleagues and I would be happy to respond to any questions.