

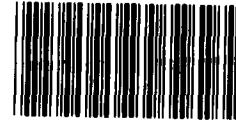


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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
221 COURTLAND STREET, N.E.
ATLANTA, GEORGIA 30043

OCTOBER 24, 1983

The Honorable George C. Wallace
Governor of Alabama
State Capitol
Montgomery, Alabama 36130



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Dear Governor Wallace:

Subject: Alabama's Early Implementation of the Small
Cities Community Development Block Grant Program

Enclosed is our final report which describes Alabama's decisionmaking process in implementing the Small Cities Community Development Block Grant Program as authorized by the Omnibus Budget Reconciliation Act of 1981. It also provides a comparison of State-funded activities and populations targeted in 1982, with those of the Department of Housing and Urban Development (HUD) in 1981, and provides perceptions of local communities and others relative to the success of Alabama's program. Alabama was one of seven States we visited to provide the Congress with up-to-date information on States' progress in implementing their Small Cities Program. We previously sent you a copy of our overall report to the Congress, "States Are Making Good Progress in Implementing the Small Cities Community Development Block Grant Program" (GAO/RCED-83-186, Sept. 8, 1983), which incorporated the results of our work in seven States. The enclosed report details the results of our review in Alabama.

Essentially, we found that the projects and activities funded by Alabama were similar to the Small Cities Program HUD administered in 1981. Both the State and HUD concentrated funding on public facilities, housing rehabilitation, and economic development projects. However, we observed some differences between Alabama's and HUD's programs. As a percentage of total funds awarded, housing rehabilitation decreased 7 percentage points (from 22 to 15) and public facilities increased 28 percentage points (from 46 to 74). Alabama awarded 105 grants in 1982, while HUD awarded 59 in the previous year. The average size of a State grant was \$161,544, while the average HUD grant was \$479,624. Also, about 90 percent of Alabama's grants and about one-fourth of HUD's grants were supported by other funds. State-awarded grants were supported by \$16.7 million in other funds in 1982, and HUD-awarded grants were supported by \$2.8 million in other funds in 1981. In addition, according to

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the grant applications, the percentage of expected program beneficiaries who are low- and moderate-income persons decreased 13 percentage points (from 95 to 82) under the State program. (See enc. III.)

State, HUD, and regional planning commission officials generally view the State Small Cities Program favorably compared with the former HUD program. These officials generally believe the State program meets local needs better than the HUD-administered program. Most grantees and unsuccessful applicants in Alabama who responded to our questionnaire viewed the State-administered program favorably compared with the previous HUD program. (See enc. IV.)

Alabama used the flexibility allowed by the program in designing the State program and identifying its communities' development needs. The State held public hearings and workshops, solicited oral and written comments on its proposed statement, notified local communities of the program by mail or direct contact, and received assistance from public interest groups. By sending questionnaires to cities and counties, the State gave communities the opportunity to assess their own needs. (See enc. II.)

We provided a draft of this report to your office on February 28, 1983, for review and comment. Subsequently, we talked by telephone with the program manager of the Small Cities Program, who advised us that the State had no significant differences with the report.

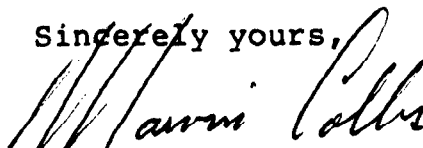
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Enclosure V contains detailed information regarding the objectives, scope, and methodology of our review.

Copies of this report are being sent to Alabama's President of the Senate, Speaker of the House, and U.S. congressional representatives; the HUD regional administrator responsible for the State of Alabama; and other interested parties.

Thank you for the cooperation of and time spent by State officials in assisting us during our review. Without their full cooperation and assistance, we most likely could not have provided early input to the March 1983 Community Development Block Grant Program reauthorization hearings.

Sincerely yours,



Marvin Colbs
Regional Manager

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FY	fiscal year	
HUD	Department of Housing and Urban Development	

INTRODUCTION

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) substantially changed the administration of various Federal domestic assistance programs. The act consolidated numerous Federal categorical programs into nine block grants and shifted primary administrative responsibility to the States, with Federal agencies retaining a stewardship role. Of the nine block grants enacted, four related to health services, two to social services, one to low-income energy assistance, one to education, and one to community development. Six of the block grants were newly created, and three involved changes to existing ones. Under the provisions of the act, States are provided greater discretion, with certain legislative limits, to determine programmatic needs, set priorities, allocate funds, and establish oversight mechanisms. Since passage of the act, a great deal of interest has been expressed by the Congress, as well as the public and private sectors, on what impact the new approach to block grants is having on services provided to the people.

We are reviewing the Small Cities Community Development Block Grant Program, and the other eight block grant programs, to provide the Congress with detailed information on the States' implementation of the programs. This report provides information on the Small Cities Community Development Block Grant Program in the State of Alabama. Specifically, it describes the decisionmaking process used to design the State program, including how the State met its public participation certifications; the State process of selecting local funding recipients in 1982; a comparison of State funding of community development activities in 1982 with Department of Housing and Urban Development (HUD) funding in 1981; and local communities' and others' perceptions of how Alabama is administering the 1982 Small Cities Program compared with how HUD administered the previous program.

HISTORY OF THE SMALL CITIES PROGRAM

The Small Cities Program began with the passage of the Housing and Community Development Act of 1974 (Public Law 93-383). Title I of this act created the Community Development Block Grant Program. It replaced several former categorical grant and loan programs under which communities applied for funds on a case-by-case basis. The primary objective of title I was the development of viable urban communities by providing decent housing and suitable living environments and by expanding economic opportunities, principally for low- and moderate-income persons.

The program allowed communities two types of grants--discretionary and entitlement. Small communities in metropolitan areas and communities in nonmetropolitan areas were eligible to receive annual discretionary grants. These communities were made up largely of cities having populations of under 50,000 that could receive funding only through a competitive process. Funds were awarded at HUD's discretion after it considered applicant proposals. Known initially as the discretionary grant program, the program evolved into the current Small Cities Program. Annual entitlement grants were made to cities with populations of over 50,000, central cities of standard metropolitan statistical areas, and some urban counties with populations of over 200,000.

Subsequent amendments to title I of the act made a number of changes to the program. For example, the Housing and Community Development Act of 1977 (Public Law 95-128) redesignated the discretionary grants portion of the program as the Small Cities Program. This act also authorized HUD to make two types of programs available to small cities--comprehensive and single purpose grants. Comprehensive grants involve commitments for periods up to 3 years to carry out two or more activities that address a substantial portion of community development needs within a reasonable period of time. Single-purpose grants are for one or more projects that consist of one activity or a set of activities to meet a specific community development need.

Before passage of the Omnibus Budget Reconciliation Act of 1981 on August 13, 1981, two States--Kentucky and Wisconsin--participated in a HUD-authorized demonstration to test States' ability to administer the Small Cities Program. The demonstration was undertaken to determine whether an expanded role for States in the Small Cities Program would increase the effectiveness of the program in meeting the needs of distressed areas and low- and moderate-income people. Kentucky and Wisconsin were selected from a pool of nine States which applied to participate in the demonstration, primarily because they had the staff and resources to carry it out and had a record for State activities compatible with the objectives of the Small Cities Program. According to HUD, the results of the demonstration indicated that the States had the capacity to administer a Federal community development program and to do so with the cooperation of small communities.

Title III of the Omnibus Budget Reconciliation Act of 1981 resulted in substantial revisions to the Small Cities Program. Although the primary objective of carrying out community development activities that principally benefit low- and moderate-income persons remains unchanged, HUD regulations (24 CFR Part 570) on the State-administered program state that this overall objective is achieved through a program where the projected use

of funds has been developed to give maximum feasible priority to activities which will benefit low- and moderate-income families or aid in the prevention or elimination of slums or blight. The projected use of funds may also include activities which the grantee certifies are designed to meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available to meet such needs.

The 1981 act put State and local officials more clearly at the center of the decisionmaking process and reduced the discretionary power that HUD held over program decisions. Title III gives States the option to assume primary administrative responsibility for the Small Cities Program, including distributing funds under a State-developed program. States are free to develop purposes and procedures for distributing funds as State and local priorities dictate, subject to the objectives and other requirements of the act.

In lieu of preparing a block grant application, the Omnibus Budget Reconciliation Act of 1981 requires each State electing to administer the program to prepare a statement of community development objectives and its projected use of the funds. The projected use of funds shall consist of the method by which the State will distribute funds to units of local government. The act provides that each State must certify, among other things, that the projection of how funds will be used has been developed in a way that gives maximum feasible priority to benefiting low- and moderate-income people or preventing slums and urban blight. The projected use of funds may also include activities that the State certifies have been designed to meet community development needs of particular urgency because existing conditions pose a threat to the health and welfare of the community, and other financial resources are not available to meet those needs. The act also sets forth specific requirements to permit public examination and appraisal of the proposed and final statement of objectives and projected use of the funds, to enhance the public accountability of the States, and to facilitate coordination of activities with different levels of government. Each State is required to certify to HUD that it has met these requirements.

If a State elects not to accept primary responsibility for administering the program or if it fails to submit the required certifications, small communities would continue to be eligible to receive small cities grants from a HUD-administered program.

In fiscal year 1982, 36 States and Puerto Rico elected to assume responsibility for administering the Small Cities Program. As of August 1983, 46 States and Puerto Rico have elected to administer the program for fiscal year 1983. Hawaii, Kansas,

and Maryland have decided not to administer the program, while New York needs approval of its legislature before notifying HUD of its intention to administer the program.

As structured under the Omnibus Budget Reconciliation Act of 1981, 30 percent of the funds appropriated to the Community Development Block Grant Program are allocated to the Small Cities Program after deducting funds allocated to the Secretary's Discretionary Fund. After determining the amount of funds available for the Small Cities Program, grants to individual States are calculated on the basis of two formulas that existed under prior law. One formula takes into consideration poverty, population, and overcrowded housing. The other formula considers poverty, population, and age of housing stock. The allocation to each State is based on whichever formula yields a higher level of funds.

In fiscal year 1982, \$1.019 billion was allocated among the 50 States and Puerto Rico for the Small Cities Program compared with about \$926 million in fiscal year 1981.

OVERVIEW OF STATE PROGRAM

Alabama was among the first States opting to administer the Small Cities Program. In August 1981, Alabama advised local governments of its decision to administer the program, and in April 1982 the State published and provided HUD its final statement of objectives and projected use of funds. Shortly thereafter, it began accepting Small Cities Program funding applications.

In designing its program, Alabama involved the Office of State Planning and Federal Programs and its program staff, two State-established advisory committees, HUD, local governments, citizen groups, and other State agencies. The Office of State Planning and the program staff coordinated and implemented the program's design. They assisted in establishing the two advisory committees which developed and fine tuned the program design. HUD's role was to provide insight and technical assistance while maintaining a "hands off" position. A HUD representative served on each of the State's two committees and, according to State officials, provided insight that helped avoid costly mistakes.

Alabama established primary goals to provide essential community facilities such as water and sewers, promote economic development, and provide decent housing, especially for families of low and moderate incomes. In addition, Alabama established the following program policies which, when combined with the program's objectives, goals, and thresholds or prerequisites, create the basic framework which governs the funding of eligible activities:

- Ensure that all communities in the State can compete for funds on an equitable, competitive basis.
- Facilitate funding of a larger number of applications by lowering the grant ceiling and eliminating new multiyear commitments.
- Facilitate funding of important economic development projects in a timely manner by setting aside a certain portion of Small Cities Program funds for economic development activities and allowing for distribution of funds in a quarterly competition.
- Allow for more equitable competition by letting small cities, large cities, and counties compete in their respective groups.
- Let all communities compete equally for their varying community development needs, provided they first attend to the serious problems associated with essential community facilities.
- Give additional consideration to those communities which have done the most or have committed to do the most to help themselves, taking into account their level of resources.
- Give consideration to the community's ability to maintain improvements that occur under the program.
- Encourage communities to plan for community conservation and development and set aside a small planning fund for those communities which demonstrate need for community planning.

HUD awarded 59 grants in 1981, with an average award of \$479,624. These included 37 single-year and 22 multiyear awards. Alabama, as of December 1, 1982, awarded 105 new grants--all single-year--with an average award of \$161,544. These grants totaled \$17 million. In addition, Alabama awarded \$12.3 million to prior HUD multiyear commitments.

DESCRIPTION OF ALABAMA'S STATE
AND LOCAL DECISIONMAKING PROCESS

In designing its 1982 Small Cities Program, Alabama used a variety of methods to meet the public participation certifications required by Title III of the Omnibus Budget Reconciliation Act of 1981. The State held public hearings and workshops, solicited oral and written comments on its proposed statement, notified local communities of the program by mail or by direct contact, and received assistance from public interest groups.

Furthermore, in designing its Small Cities Program, Alabama made use of the program's flexibility in allowing local communities to assess their own development needs. Alabama distributed questionnaires to cities and counties to assess community needs, and gave communities the opportunity to provide suggestions during the program design process as well as after the program was developed. The State gave questionnaire results key consideration in designing its program, along with citizen input and formal needs assessments, which were the primary means of identifying community development needs.

In selecting grantees, Alabama followed the funding distribution method and selection criteria as outlined in its final statement. The State distributed its funds to eight funding categories which included three categories which were based on geographic area, and one category each for planning, economic development, prior HUD commitments, State administration, and the State discretionary fund. Alabama made award decisions in the latter three categories on a noncompetitive basis while adhering to its selection criteria. In the remaining five categories, the State employed a variety of competitive approaches in making award decisions, and also adhered to its selection criteria.

ALABAMA DESIGNED ITS PROGRAM
EMPHASIZING PUBLIC PARTICIPATION

Title III of the Omnibus Budget Reconciliation Act of 1981 requires each State to certify, among other things, that it

- furnished citizens information about the amount of funds available for proposed community development and housing activities, and the range of activities that may be undertaken;
- allowed affected citizens or, as appropriate, units of local government, the opportunity to examine and comment on proposed statements of community development objectives and projected use of funds;

--held at least one public hearing to obtain the views of citizens on community development and housing needs; and

--made the final statement available to the public.

How public participation requirements were met

To meet its public participation certifications, Alabama held public hearings and workshops, solicited oral and written comments on its proposed statement, notified local communities of the program by mail or by direct contact, and received assistance from public interest groups. According to HUD's initial monitoring review report, the State took the following actions to meet the public participation certifications:

- Notified the public through its proposed final statement of the amount of funds available and activities to be undertaken. The proposed statement was mailed to elected officials of the eligible cities and counties, regional planning commissions, and block grant consultants for review and comment.
- Notified the public that public hearings would take place through local newspapers and through written communication distributing the proposed statement. Three public hearings were conducted by the State and the results were recorded on tapes and transcripts.
- Assured that public comments were considered in the final statement even though it differed little from that proposed.
- Notified the public through State-sponsored workshops of the final statement of program objectives and method for distributing funds. HUD suggested the final statement could have been more widely distributed by mail rather than only through the State-sponsored workshops.

Also, early in the design of the program, the State distributed questionnaires to its cities and counties to assess their individual needs. The results were compiled in the categories of (1) cities with populations of 2,500 and less, (2) cities with populations of between 2,501 and 7,500, (3) cities with populations in excess of 7,500, and (4) counties. The results, which were based on responses from about 34 percent of eligible counties and about 29 percent of eligible cities, showed public facilities as the primary need, economic development as the secondary need, and housing as the tertiary need. The State used the results as key considerations in assessing the communities' needs and in designing its program.

The Office of State Planning and Federal Programs and the program staff jointly sponsored three public hearings throughout the State. The hearings were chaired by a State senator who was also a member of the policy committee. The hearings were designed to permit interested individuals, groups, or local governments to hear and comment on the program's proposed design, timetable for implementation, highlights, funding mechanisms, selection criteria, and other pertinent factors. The final statement does not vary much from the proposed statement; however, State officials commented that responses were helpful in fine tuning the program. In addition to notifying public representatives of the hearings, Alabama published notices in several local newspapers. According to one State official, a local newspaper also provided media coverage in one of the cities holding a hearing.

Approximately 219 participants attended the three hearings, including city representatives, consultants, mayors, regional commissioners, councilmen, probate judges, community development directors, Comprehensive Employment and Training Act representatives, health department specialists, and city clerks. Also in attendance were representatives of private entities, the State Office of Employment and Training, councils of governments, the Tennessee Valley Authority, HUD, and the State. Participants testified at the hearings and/or submitted copies of statements to the State program staff. The State public hearings resulted in about 13 onsite testimonies.

Prior to the hearings, the State submitted its proposed statement for written and oral comments. Regional planning commissions assisted the State much as they had done under the HUD-administered program. They processed applications and agreed to monitor grantees' use of the funds.

Most of those responding to our questionnaires said that the State provided their communities information about the State-administered program through mailings and meetings. Ninety-seven percent of the grantees and 71 percent of the unsuccessful applicants said they were provided information by mail, and 77 percent of the grantees and 58 percent of the unsuccessful applicants said they were provided information through meetings. Thirty-two percent of both respondent groups said the State provided them information through individual communication.

All of the grantees and 90 percent of the unsuccessful applicants responding to our questionnaire said that the information provided by the State included community eligibility requirements, and 94 percent of the grantees and 77 percent of the unsuccessful applicants said it included information on

program goals. Ninety-seven percent of the grantees and 68 percent of the unsuccessful applicants said information on the award process was provided, and 68 percent of the grantees and 65 percent of the unsuccessful applicants said that information on communities' administrative requirements was provided.

Seventy-six percent of the grantee respondents and 52 percent of the unsuccessful applicant respondents said the State requested community suggestions on formulating and carrying out the Small Cities Program.

Most questionnaire respondents said that they generally thought the extent of communication that took place between their community and the State before the program's implementation was adequate. The following table illustrates their responses:¹

<u>Extent of communication</u>	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Much more than adequate	3	-
More than adequate	18	3
Adequate	62	74
Less than adequate	12	10
Much less than adequate	3	-
No basis to judge	3	13

State officials said that public hearings held by the State were very effective and responsive. In addition, regional planning commission officials noted that the State program has emphasized more public input.

How local communities
designed their programs

Citizen input and formal needs assessments played a major role in determining local community development needs. On the basis of comments from grantees responding to our questionnaire, 94 percent said that persons outside their local government participated in developing the community's plans for carrying out projects and activities under the Small Cities Program. These respondents cited the following as those outside the local government who participated most often:

¹Percentages may not total 100 because of rounding.

<u>Participants</u>	<u>Grantees</u> (percent)
Consultants or contractors	50
Council of governments	44
Individual citizens	38
County officials	27
Citizen groups	21
Regional advisory council	18

The State's program eliminates the old HUD requirement for a housing assistance plan and a citizen participation plan and instead requires each applicant to participate in the development of its plan primarily through public hearings conducted by the local governments. According to grantees, individual citizens or citizen groups participated in the development of their communities' plan for Small Cities Program projects and activities by the following means:

<u>Means of participation</u>	<u>Grantees</u> (percent)
Meetings open to the public	68
Public hearing held by community government	41
Individual visits, calls, or letters	41
Formal submission of project and activity proposals	6

Eighty-eight percent of the grantee respondents said their communities formally assessed their needs before submitting their applications to the State for funding approval. Forty-seven percent of these respondents said that their needs assessment was conducted by the community government, 32 percent said it was conducted by a consultant or contractor, and 6 percent said the assessment was conducted by the county government. Grantees indicated the following procedures were included in their needs assessment:

<u>Procedures</u>	<u>Grantees</u> (percent)
Visual inspection of community conditions	85
Review of community statistical data	77
Review of U.S. Census data	59
Survey of households	53
Review of county data	35

In determining what specific projects and activities their communities would include in their funding applications, grantees said they considered the following to be important decisionmaking factors.

<u>Factors affecting selections</u>	<u>Grantees</u> (percent)
General knowledge of community officials	100
Needs assessment	97
Individual citizens' comments	88
Citizen groups' comments	84
State officials' suggestions	77
Previously prepared master plan	70
Potential for attracting other funding sources	63
Federal funding reductions in existing activities	53

ALABAMA ADHERED TO ITS
FUNDING DISTRIBUTION METHOD
AND SELECTION CRITERIA

Our review of a statistical sample of grantee and unsuccessful applications for Small Cities Program funds showed that Alabama distributed funds in accordance with the procedures and rating criterion outlined in its statement of objectives. The State subdivided its allocated funds into eight funding categories designed to provide statewide competition for funding grants.

Alabama's selection process was directed toward applicants and projects that most closely adhered to program objectives and State goals, thresholds, and policies. Funding decisions within five of the State's eight categories were made on a competitive basis, using a variety of approaches. Award decisions in the remaining three categories were made noncompetitively, yet adhered to established selection criteria.

State's selection process
in the fiscal year 1982 program

The State subdivided its allocated funds into the following eight funding categories:

<u>Funding categories</u>	<u>Estimated funds</u>	<u>Actual funds</u>
State discretionary fund (10 percent)	\$ 3,172,700	\$ 3,196,617
State administration (not to exceed)	450,000	450,000 ^a
Prior HUD commitments (estimated)	12,760,000	12,258,558 ^b
Economic development fund	2,500,000	2,500,000
Planning fund	150,000	150,000
County fund (17 percent of remainder)	2,158,031	2,158,031
Large city fund (population of 5,000 or more)	5,268,134	5,421,791 ^c
Small city fund (population of under 5,000)	5,268,134	5,329,734 ^c

^aEstimated on the basis of current workload.

^bExcludes one multiyear project; the State is awaiting final comments from HUD since the project has not yet resolved HUD audit findings.

^cIncludes fiscal year 1981 turn-back money from HUD.

The State administration fund was to be matched dollar for dollar by State funds, and up to 2 percent of the State's allocation could be used for this purpose. Prior HUD commitments are multiyear, comprehensive projects previously funded by HUD which the State must honor. According to its program design, however, Alabama will not fund future multiyear projects.

For the remaining six categories, the State developed several different application review procedures. County, large city, and small city applications were reviewed under the same procedure; and planning, discretionary, and economic development applications were each reviewed under different procedures. All applications, except those seeking discretionary funding, were reviewed independently by the State program staff. Discretionary applications were reviewed in the Governor's office. Before applications were reviewed for funding consideration, however, they had to comply with specific threshold requirements. These requirements provided that:

--Applicants funded under the fiscal year 1981 Small Cities Program were ineligible for funding under the fiscal year 1982 program, unless the request for funding was for planning and/or economic development funds.

- Applicants who had not closed a program that was funded before fiscal year 1981 had to demonstrate the capacity to conclude this program in a timely manner in order to compete for fiscal year 1982 funds.
- Applicants receiving fiscal year 1982 Small Cities Program funds under a multiyear commitment from HUD could not be eligible to compete for additional fiscal year 1982 Small Cities Program funds, unless such request was for planning and/or economic development funds.
- Applicants were permitted only one application for fiscal year 1982 funds, except any request for planning and/or economic development funds would not preclude an applicant from competing for other Small Cities Program funds.
- Applicants were not permitted to apply for Small Cities Program funds for a comprehensive program unless the applicant had received a Small Cities Program grant in a previous year other than fiscal year 1981.
- Applicants could not have any unresolved audit findings or could not owe HUD or the State money because of any irregularity from a prior grant. Audit findings were to be considered unresolved if any measures necessary to bring the audit into full compliance remained unmet.
- Applicants had to demonstrate the ability to maintain any facilities funded under the Small Cities Program.
- The program had to benefit principally persons of low and moderate income. Low- and moderate-income persons were those in households where income was 80 percent or less of the State median income. For public facilities projects, 50 percent of the beneficiaries had to be of low and moderate income while for direct housing program assistance, 100 percent of the beneficiaries had to be low- and moderate-income persons. However, in a comprehensive program, a housing activity could benefit less than 100 percent low- and moderate-income persons, but had to benefit more than 75 percent low- and moderate-income persons.

The funding categories--except administration and prior HUD commitments--were designed to generate, to some extent, state-wide competition among the eligible Small Cities Program communities. A description of these six funds and the methods used to select applicants in each of the categories follow.

Discretionary funds

The discretionary funds were awarded by the Governor's office to (1) activities satisfying an urgent need, (2) an otherwise exceptional economic development project which, in other respects, might have been lost if not funded, and (3) activities at the general discretion of the Governor. The fund was also used in distributing monies to areas or projects with other identifiable needs. The amount of this fund represents 10 percent of the total State allocation. In the 1983 program, the amount of allocation will increase 15 percent of the total allocation. The change was made by the new administration, which started in 1983, and was done to provide additional monies to better meet urgent and imminent needs. The fund has no quantifiable rating system for selecting applicants.

Economic development fund

The economic development fund allows the State to reserve a sum of money it determines is needed to fund activities necessary to take advantage of industrial development opportunities within the State. The funds were to be allocated quarterly during the program period and all applications submitted prior to the close of a funding period were to be considered. Funds not distributed because of a lack of qualified projects could be transferred into the cities' and counties' funds. All economic development fund money, however, was distributed during the 1982 program.

Before economic development fund applications were rated competitively, they underwent a detailed screening process in addition to meeting the threshold requirements for all applications, as described on pages 12 and 13. This process eliminated projects such as those that did not demonstrate a need for funding, those that already had sufficient resources within the community, and those that had begun construction before initiating requests for funds. One State official estimated about 50 percent of these applications were eliminated as a result of the initial screening. Applications that survived the detailed screening process and met the threshold requirements were then ranked on the basis of six major factors and scored on how well the project addressed each factor. The maximum points allowed were 120, and applicants scoring the highest were to be potential grantees. The grant/loan ceiling for economic development projects was set at \$150,000. The criteria for rating economic development projects and the points applicable to each criterion follow.

<u>Economic Development Fund</u>		Points
<u>Rating Criteria</u>		
1.	Small Cities Program dollars per permanent job	15
2.	Leverage ratio (Small Cities Program dollars versus all other dollars)	15
3.	Projected increase in local revenues	15
4.	Number of permanent jobs to be created and/or retained	15
5.	Distress factors	40
	a. Unemployment (annual averages for the past 2 years)	
	b. Percentage of local population who were low- and moderate-income persons (based on 80 percent of of State median income)	
6.	Other factors	20
	a. Timetable	
	b. Potential for spin-off	
	c. Indirect benefits	
	d. Job diversification	
	e. Urgency	
	Total	<u>120</u>

Planning fund

The planning fund represents monies set aside at the State's discretion and included \$150,000 in 1982. Planning funds are allocated to those local governments demonstrating the need for local planning and that are willing to match funds on a dollar-for-dollar basis. Applications are awarded competitively using, as a minimum, the following subjective criteria:

- The applicants's adherence to its previous plan.
- The urgency of the planning activity proposed.
- The applicants's previous planning efforts.
- The type of planning activity proposed.
- The size of the community.
- The amount of funds requested.

Applicants must also be persons or entities qualified to use the funds. The grant ceiling under the planning fund has been raised from \$7,500 to \$10,000 in the 1983 program. State officials contend that \$7,500 has proven to be insufficient to allow for adequate community planning.

County, large city, and small city funds

Under the county, large city, and small city funding categories, all nonentitlement counties, large cities (population of 5,000 or more), and small cities (population of under 5,000) are eligible to compete for single-purpose and 1-year comprehensive grants.

Comprehensive grants are to address a substantial portion of the identified community development needs of a defined concentrated area(s). They are supposed to involve two or more activities related to each other that will be carried out in a coordinated manner. Comprehensive grants may include activities related to housing rehabilitation, public facilities, and commercial development related to a downtown and/or neighborhood redevelopment area. Under each jurisdictional category, applications for comprehensive grants compete against each other.

Single-purpose grants are to address and resolve a specific community development need that is supposed to relate to housing rehabilitation or deficiencies in public facilities that affect public health and safety. For single-purpose grants, housing rehabilitation applications compete against housing rehabilitation applications, and public facility applications against public facility applications.

All applications were to be rated for a maximum score of 300 points, and applications with relatively high scores were to receive site visits. Site visits are used to verify information in the applications. Applications receiving site visits were funded in order of decreasing score until all funds in a given category were depleted. The following chart gives the criteria used to rate single-purpose and comprehensive applications:

	Type of application and number of points	
	<u>Single- purpose</u>	<u>Comprehensive</u>
Need factors:		
Absolute number of low- and moderate- income persons in jurisdiction	40	25
Percentage of low- and moderate-income persons in jurisdiction	<u>40</u>	<u>25</u>
Total	<u>80</u>	<u>50</u>
Program value factors:		
Ratio of dollars to beneficiaries ^a	50	60
Nature of benefits ^b	100	120
Additional efforts necessary to complete proposed activity ^c	10	10
Prior commitments or efforts taken by applicant to address same activity ^d	<u>10</u>	<u>10</u>
Total	<u>170</u>	<u>200</u>
Other program factors:		
Leveraging ^e	20	20
Local match ^e	20	20
Equal opportunity in local government employment	<u>10</u>	<u>10</u>
Total	<u>50</u>	<u>50</u>
TOTAL	<u>300</u>	<u>300</u>

^aMeasures project cost per beneficiary. Scoring is based on a comparison of the applicant's cost per beneficiary to the lowest ratio for a similar type project in the same funding category. Per-beneficiary cost is based on a weighted average of all proposed activities for comprehensive applications.

^bEvaluates the importance of an applicant's project as viewed from the standpoint of a number of considerations such as direct versus indirect benefits and extent that community needs are served. Comprehensive projects include additional considerations such as urgency or timeliness of project and whether the project activities are interrelated.

^cAssesses whether additional resources will be required to complete the project. Applications requiring little or no additional efforts score higher.

^dMeasures the community's determination to attend its needs. Applicants who committed local resources or undertook other efforts during 5 previous years are scored higher.

^eLeveraging is ratio of additional funds, other than local match, proposed for the project versus the amount of Small Cities Program funds. Local match is the proposed use of the applicant's own fund in conjunction with the Small Cities Program funds.

Nonentitlement communities applying for project funds under the county, large city, and small city funding categories may also apply under the economic development and planning fund categories. These applicants are rated in accordance with the criteria discussed on pages 16 and 17.

On the basis of its experience in administering the Small Cities Program in 1982, Alabama is planning a number of program changes in 1983. For example, the population cutoff for the large city and small city funds has been reduced from 5,000 to 4,000. Cities with 4,000 or more people will compete for large city funds and cities with less than 4,000 will compete for small city funds. This change was made so that the number of applicants competing for funds under the large city category would remain about the same. Otherwise, the number of applicants would be reduced because 1982 large city fund grantees are not eligible to receive another grant from that category in 1983. Alabama is also planning to award points to projects that are based on minority employment in the local government. This criterion for rating projects is designed to reflect the progress or efforts made by the local governments to employ minority workers.

Results of our review of
the State's selection process

Our review of statistical samples of both grantees and unsuccessful applicants showed that Alabama followed its own rating criteria and complied with its method of selecting grantees as described to HUD. We reviewed the selection procedure the State followed for 94 applicants--44 successful and 50 unsuccessful--or about 20 percent of the total applications received. The results of our review of applicants in the six fund categories follow.

Our review of 11 of the 64 applicants for discretionary funds showed that although the Governor had considerable discretion in selecting these projects, those projects funded had identifiable needs. We found that unsuccessful applicants were not funded because (1) the applicants had previously received State revenue sharing funds, (2) the State felt the project provided only marginal benefit to the low- and moderate-income families, or (3) applicants could not demonstrate an effective use of resources. Also, one applicant had already received funding under the economic development fund.

We reviewed 7 of the 53 applications Alabama received for economic development funds and found that the State's initial screening process eliminated so many applicants whose projects failed to meet program objectives or thresholds that all qualified projects could be funded. Although applications were

submitted and selected quarterly, the State's initial screening of these applications eliminated almost half. Because so few applications remained, a rating and selection process was necessary only in the first quarter. During the second and third quarters, all remaining applicants were funded. Because of delays in implementing the program, the State had only three funding periods.

Our review of 20 of Alabama's 59 applications for planning funds showed that although the ultimate decision for selecting applicants was with one individual, the State generally adhered to its selection criteria. All grantees in our sample were in compliance with Alabama's selection criteria. In accordance with its criteria, the unsuccessful applications were not selected either because they (1) had not devoted sufficient time or resources to planning in the past, (2) had not updated existing plans, or (3) had proposed plans which showed no adherence to program objectives or the previous plan.

We reviewed 11 of the 51 county applications, 13 of the 34 large city applications, and 32 of the 204 small city applications Alabama received to determine if the State followed its selection procedures. We found that Alabama's selections were objective and made in accordance with its procedures and rating criteria. The applications were reviewed and rated independently by program staff.

CONCLUSIONS

To meet its public participation certifications, Alabama held public hearings and workshops and solicited input from communities and public interest groups. Furthermore, the State distributed questionnaires to cities and counties, giving communities the opportunity to determine their own development needs.

Alabama also adhered to its funding distribution method and selection criteria as submitted in its final statement to HUD. The State allocated its funds to eight funding categories and complied with its selection criteria in making its award decisions. These award determinations were made either competitively or noncompetitively, depending on the funding category.

COMPARISON OF HUD- AND STATE-FUNDEDACTIVITIES AND POPULATION TARGETED

The types of projects and activities funded by Alabama in 1982 were basically the same as the Small Cities Program HUD administered in 1981. Both Alabama and HUD concentrated funding on public facilities, housing rehabilitation, and economic development projects. However, under the State-administered program, the percentage of funds awarded to public facilities projects increased from 46 percent to 74 percent and funds for housing rehabilitation projects decreased from 22 percent to 15 percent.

The State-administered program awarded more grants than HUD did, and they were generally smaller. In 1981, HUD awarded 59 grants, while in 1982, Alabama awarded 105 grants. The average HUD grant was for \$479,624; the average State grant was for \$161,544. In addition, about 90 percent of Alabama's grants were supported by other funds in 1982, while in the previous year, about one-fourth of HUD's grants were supported by other funds.

According to the applications, the percentage of program beneficiaries who were expected to be low- and moderate-income persons decreased 13 percentage points--from 95 to 82--under the State program. At the time we completed our audit work, Alabama was in the process of finalizing its reporting requirements and planned to report to HUD actual data on benefits to low- and moderate-income persons.

MAJOR ACTIVITIES FUNDED UNDER HUD'S
1981 PROGRAM AND STATE'S 1982 PROGRAM

Major activities funded under HUD's 1981 program and the State's 1982 program are summarized in the following table.

Comparison of 1981 HUD and 1982 State Grants

	<u>HUD 1981</u>	<u>State 1982^a</u>
Number of grants	59	105
Average size of award	\$479,624	\$161,544
Average community size	10,703	16,459
Grants supported by other funds:		
Number	14	94
Source and amounts:		
Local	\$1,577,634	\$ 8,583,027
State	14,460	108,500
Private	50,000	7,112,671
Federal	<u>1,170,300</u>	<u>881,000</u>
Total	<u>\$2,812,394</u>	<u>\$16,685,198</u>

Percentages^b and dollar awards by activity:

	<u>HUD 1981</u>	<u>State 1982</u>
Housing rehabilitation	22% \$ 6,336,215	15% \$ 2,483,686
Public facilities	46 13,061,611	74 12,515,879
Economic development	6 1,836,300	8 1,430,533
Property acquisition	5 1,461,224	2 382,000
Clearance	1 384,500	0 0
Planning	0 0	1 150,000
Public affairs	1 394,741	0 0
Other	<u>17 4,823,235^c</u>	<u>0 0</u>
Total funds awarded	<u>98% \$28,297,826</u>	<u>100% \$16,962,098</u>

^aFor the purpose of our comparison, we did not include \$12.8 million that was part of the State's allocation but was committed to past HUD-approved, multiyear grants because the State did not have control over the money. States had to agree to fund multiyear grants as a condition to taking over the Small Cities Program.

^bPercentages may not total 100 percent because of rounding.

^cHUD's 1981 "Other" funds included \$1,667,653 for general administration, contingencies, management and planning, and \$3,155,582, which we could not readily attribute to specific activities.

Alabama funded basically the same activities in 1982 as HUD did in 1981, although funding levels varied. Public facilities, housing rehabilitation, and economic development projects received most of the 1981 and 1982 funds. While HUD spent 46 percent of its 1981 Small Cities Program funds on public facilities, Alabama spent 74 percent of its funds for that purpose in 1982. HUD directed 22 percent of its funds to housing rehabilitation projects, and Alabama directed 15 percent of its funds to these projects. Economic development projects received 6 percent of HUD's 1981 funds and 8 percent of Alabama's 1982 funds. The reasons for these differences may be attributed to Alabama's flexibility in designing its program and its emphasis on different projects.

As of December 1, 1982, Alabama had awarded 105 Small Cities Program grants; HUD awarded 59 in 1981. The average State award was for \$161,544, while HUD awards averaged \$479,624. Alabama's average award is less than HUD's, in part, because the State made 35 relatively small planning grants that ranged from \$1,500 to \$6,500. State awards ranged from \$1,500 to \$700,000, while HUD awards ranged from \$13,000 to \$1 million. The following table compares the funding ranges of HUD- and State-awarded grants.

Comparison of Funding Ranges for
HUD and State Awards

	<u>HUD, FY 1981</u>	<u>State, FY 1981</u>
\$0-\$100,000	1	50
\$100,001-\$200,000	4	13
\$200,001-\$200,000	4	29
\$300,001-\$400,000	23	8
\$400,001-\$500,000	5	2
\$500,001-\$600,000	5	-
\$600,001-\$700,000	7	3
\$700,001-\$800,000	6	-
\$800,001-\$900,000	1	-
\$900,001-\$1,000,000	<u>3</u>	<u>-</u>
Total awards	<u>59</u>	<u>105</u>

Each application received was from a single community in both the State and HUD programs. The average population size of a community applying to the State increased from 10,703 in 1981 to 16,459 in 1982. Ninety-four State-awarded grants were supported by \$16.7 million from other sources in 1982. In 1981, 14 of the 59 grants awarded by HUD involved \$2.8 million from other funding.

Although the State made no new multiyear awards, it did fund communities that had received previous commitments from HUD for funding in fiscal year 1982. These multiyear awards totaled \$12,758,558. All of the 1982 State grants (105) were single-year awards. HUD awarded 37 single-year and 22 multiyear awards in 1981.

BENEFITS TARGETED TO LOW- AND MODERATE-
INCOME PERSONS UNDER THE 1982 STATE
PROGRAM VERSUS THE 1981 HUD PROGRAM

While both the HUD and State programs, according to communities' applications, expected to benefit high percentages of low- and moderate-income persons, the percentage of program beneficiaries who were low- and moderate-income persons decreased 13 percentage points under State administration. In 1981, HUD applications showed that 95 percent of the program beneficiaries would be low- and moderate-income persons, while Alabama reported 82 percent in 1982.

At the time of our review, State officials had not finalized the reporting requirements for the Small Cities Program; however, they were in the process of doing so and expected the requirements to be finalized shortly. The State has modified HUD's Small Cities Performance Assessment Report and plans to use this as its assessment tool. The State will require grantees to report actual data on benefits to low- and moderate-income persons. These data will be compared with the planned benefits as stated by the grantees in their applications. This information, along with other information on the Small Cities Program, will be reported to HUD to meet the annual performance reporting requirement.

CONCLUSIONS

Alabama basically funded the same type of projects in 1982 as HUD did in 1981, although funding levels varied. While both programs emphasized public facilities, housing rehabilitation, and economic development, Alabama increased the percentage of funds it awarded to public facilities projects by 28 percent--from 46 percent of the total funds awarded in 1981 to 74 percent in 1982. Also, housing rehabilitation funds decreased 7 percentage points--from 22 percent under HUD administration to 15 percent under State administration.

The State awarded more, though generally smaller, grants than HUD did. Alabama awarded 105 grants in 1982, while HUD awarded 59 in the previous year. The average size of a State grant was \$161,544, while the average HUD grant was for \$479,624. Also, about 90 percent of Alabama's grants and about one-fourth of HUD's grants were supported by other funds.

According to communities' applications, the percentage of expected program beneficiaries who were low- and moderate-income persons decreased by 13 percentage points under the State-administered program. Nevertheless, both programs reported that high percentages of beneficiaries were expected to be of low and moderate income, with HUD reporting 95 percent in 1981 and Alabama reporting 82 percent in 1982. Alabama plans to report actual data to HUD on benefits to low- and moderate-income persons.

PERCEPTIONS: COMPARISON OF STATE-
AND HUD-ADMINISTERED PROGRAMS

Officials from the State and HUD Small Cities Programs, as well as from regional planning commissions, generally spoke favorably of the State-administered program, emphasizing that it meets local needs better than the HUD-administered program and is more attuned to community problems. Grantees and unsuccessful applicants generally viewed the State program as being adequate in numerous respects, including its ability to meet local needs, its provision of technical assistance, and the fairness of its award process. Furthermore, they generally perceived the State program as being equivalent to or better than the previous HUD program on issues such as the burden of application procedures, difficulty of eligibility requirements, and the consistency of program priorities with community development needs.

STATE, HUD, AND OTHER VIEWS ON
STATE AND FORMER HUD PROGRAMS

State, HUD, and regional planning commission officials view the State's program as one that will meet local needs. However, a HUD regional official expressed concern that the State program could be susceptible to outside pressure that could influence project selections.

State officials

Alabama's Small Cities Program Manager said that the State's program surpassed HUD's in meeting local needs and in its public participation efforts. He said Alabama's program is geared to address the needs identified by the local communities with each funded project. The program manager felt that the past HUD program narrowed its assistance to local communities by emphasizing housing projects as the number one funding priority, whereas other prerequisites to housing, such as water, roads, and sewage, need to be addressed.

The official also believed that the State's public participation efforts were extremely good. He said the State held three public hearings with over 200 participants.

HUD officials

HUD officials addressed advantages and disadvantages of the program's shift from Federal to State administration. The director of HUD's area office, Fair Housing and Equal Opportunity Division, said that Alabama has a far greater advantage in handling the program because it is more attuned to the problems

of the individual communities. Also, the State is not constrained by the national criteria set by HUD in designing its program and can set program priorities that are unique to the State and community needs. The area office official further said that the general public believes that it has greater input under the State program because State officials can better understand community problems and decisions.

The HUD regional director for community planning and development said that the States are as capable of administering the program as HUD. He said, however, that a disadvantage of States administering the program is that they are more susceptible to outside pressure which may influence the types of projects they fund.

According to a HUD regional office program specialist, present legislation requires that only one public hearing be held, and this reduces the chances for public participation. He said that when HUD administered the program, two or more hearings were required. Our review showed, however, that while only one hearing was required, Alabama's Office of State Planning and Federal Programs held three public hearings throughout the State.

Regional planning commissions

The Director of Governmental Services of the Birmingham Regional Planning Commission and the Government Aids Coordinator of the East Alabama Regional Planning and Development Commission noted the reduction in paperwork and the State's closer awareness of communities' problems as positive changes in the State-administered program. They said that the State's elimination of the preapplication has reduced duplication and further said that Alabama has simplified its application. In addition, the officials said that the State made more site visits to communities and is more attuned to State and local problems.

The Government Aids Coordinator of the East Alabama Regional Planning and Development Commission, however, did criticize the State for not returning the rating sheets to communities in a timely manner. The rating sheets provide communities and regional planning commissions with the reasons why communities were not funded.

VIEWS OF GRANTEES AND UNSUCCESSFUL APPLICANTS

Grantee views, as presented below, represent 34 communities, or 76 percent of the grantees to whom we sent questionnaires. Unsuccessful applicant views represent 31 communities, or 62 percent of the unsuccessful applicants to whom we sent

questionnaires. Because these response rates for unsuccessful applicants are relatively low, we are not projecting responses to the population universes.

The percentages presented below reflect only the views of those who answered the question being discussed.

Views on State-administered program's strengths and shortcomings

According to those communities which responded to our survey, 60 percent of the grantees believed that there are particularly strong aspects in the State's program design, process for selecting applicants to receive grants, or regulations; 21 percent of the grantees believed that these areas had shortcomings.

According to some of these grantees, strong aspects of the State's program design include (1) allowing all types of projects to merit funding consideration with no one type having an "inside track" for funding, (2) giving communities more latitude than the HUD program in choosing priorities, and (3) soliciting assistance from citizens familiar with HUD's Small Cities Program to help design the State program. Strong points in the State's selection process, according to some responding grantees, are that public facility and economic development projects are not overlooked in favor of housing rehabilitation projects. Also, some responding grantees noted that the regulations have been simplified and are easier to understand and follow. Comments concerning the program's shortcomings include the following: (1) small cities are subject to more competition, (2) local matches and leveraging are too important, and (3) the State's evaluation criteria for planning grants should have been more precise.

In addition, 29 percent of the responding unsuccessful applicants said the State program had strong aspects and 42 percent said it had shortcomings. The following are some strong aspects identified: (1) communities are treated fairly, (2) the program is more flexible than HUD's, and (3) it encourages planning and economic development. The following are some shortcomings identified: (1) the point system is unfair, (2) small cities have a harder time receiving grants, and (3) small cities in northwest Alabama received no grants. Another shortcoming according to one community is that the State needs to have more contact with applicants. Also, the State's method of awarding grants is not known to one community.

State shortcomings compared with
other State or Federal programs

Most respondents said that the State-administered program, compared with other similar State and Federal programs, has shortcomings as indicated below:

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Many more shortcomings	-	-
More shortcomings	3	7
About as many shortcomings	38	40
Fewer shortcomings	32	13
Many fewer shortcomings	15	10
No basis to judge	12	30

How adequately does State
program meet local community
development needs?

Considering the goals and emphasis of the State's program, the majority of the respondents said that the projects and activities encouraged by the State do an adequate or better than adequate job of meeting the developmental needs of the local communities, as indicated below:¹

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Much more adequately	6	3
More adequately	24	7
Adequately	71	61
Less than adequately	-	26
No basis to judge	-	3

As indicated above, only 26 percent of the unsuccessful applicants responding said the projects and activities are less than adequately meeting developmental needs.

¹Percentages of respondents may not total 100 percent because of rounding.

Did communities receive State assistance in preparing grant applications?

Sixty-five percent of the responding grantees and 36 percent of the responding unsuccessful applicants said they received assistance from State government officials when preparing their applications for 1982 Small Cities Program funds. Forty-six percent of those grantees and 55 percent of those unsuccessful applicants said they received this assistance without requesting it. Most respondents thought the assistance was helpful, as shown below:

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Assistance of very great help	23	18
Assistance of great help	50	18
Assistance of moderate help	23	36
Assistance of some help	5	27

Fairness of the State's award process

Ninety-four percent of the responding grantees and 71 percent of the responding unsuccessful applicants said they were familiar with the State's method of awarding grants, and most said that the process was fair. The following table shows their detailed responses:

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Very fair	24	10
Fair	62	45
Neither fair nor unfair	7	20
Unfair	7	25

State-administered program versus HUD-administered program

Seventy-four percent of the responding grantees and 57 percent of the responding unsuccessful applicants said they had previously participated in the HUD-administered block grant program. Both respondent groups generally viewed the State-administered Small Cities Program as being equal to or better than the HUD-administered program.

Data on the comparison issues that follow were obtained only from those respondents who said they previously participated in HUD's Small Cities Program.

Application procedures

Sixty percent of the responding grantees and 44 percent of the responding unsuccessful applicants found the State's application procedures to be less burdensome than HUD's. The following table provides a more detailed breakdown of responses:

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Much more burdensome	4	6
More burdensome	4	6
Equally burdensome	32	44
Less burdensome	52	22
Much less burdensome	8	22

Eligibility requirements

As illustrated below, most respondents thought the State's eligibility requirements were about as difficult as HUD's:

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Much more difficult	-	6
Equally difficult	72	67
Less difficult	20	28
Much less difficult	8	-

Reporting requirements

Fifty-two percent of responding grantees said the State's reporting requirements were equally as burdensome as HUD's. Thirty-six percent thought they were less burdensome, and 12 percent thought they were more burdensome.

Variety of activities

Most respondents said the State allowed the same variety, or a wider variety, of eligible projects under its program as HUD did, as illustrated below:

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Much wider variety	8	-
Wider variety	24	17
Same variety	60	67
Narrower variety	4	17
No basis to judge	4	-

Flexibility in determining population groups

Forty-eight percent of the grantees and 33 percent of the unsuccessful applicants responding to the questionnaire thought they had more flexibility under the State program to determine which population groups would be served by small cities funds. Forty-eight percent of responding grantees and 67 percent of responding unsuccessful applicants said they had equal flexibility under either program. Four percent of responding grantees said they had no basis on which to make this judgment.

Technical assistance

The majority of responding grantees said that the State-provided technical assistance was equally or more helpful than the assistance provided by HUD. The following table illustrates grantee responses:

	<u>Grantees</u>
	(percent)
Much more helpful	8
More helpful	40
Equally helpful	40
Less helpful	8
No basis to judge	4

State priorities

Most respondents, as shown below, thought that the State's program priorities were as consistent, or more consistent, with their community development needs as HUD's priorities had been:

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Much more consistent	8	-
More consistent	32	17
Equally consistent	60	78
Less consistent	-	6

Grant award method

As illustrated below, most respondents viewed the State's award process as being equally fair or fairer than HUD's process:

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Much more fair	-	17
More fair	40	-
Equally fair	52	50
Less fair	-	17
Much less fair	4	11
No basis to judge	4	6

State reimbursements or drawdowns

Of those grantees responding to the questionnaire, 50 percent said they had no basis for comparing the promptness of the State's reimbursements, payments, or drawdowns with HUD's. Thirty-eight percent said the two programs were equally prompt, 4 percent said the State was more prompt, and 8 percent said the State was less prompt.

CONCLUSIONS

Perceptions of Alabama's 1982 Small Cities Program have been favorable. Generally, State and HUD program officials, as well as regional planning commission officials, said that Alabama's program is better than HUD's in understanding and meeting community needs. Most grantees and unsuccessful applicants perceived the State program as being adequate and believed it was equivalent to, or better than, HUD's program in many areas, including the burden and difficulty of application procedures and eligibility requirements and the fairness of the awards process.

OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objectives of this work were to provide the Congress a report on State implementation of the Small Cities Community Development Block Grant Program, as authorized by the Omnibus Budget Reconciliation Act of 1981 and to provide input to the 1983 reauthorization process on the block grant legislation. This work is part of our ongoing effort¹ to keep the Congress informed of the progress being made in implementing the block grant aspects of the Omnibus Budget Reconciliation Act of 1981.

When we conducted our fieldwork--December 1, 1982, through January 15, 1983--most States were in the early stages of implementing the Small Cities Program. While essentially all States had selected their 1982 recipients, some States were just completing the grant agreements with the local communities and only one had started its monitoring work. Accordingly, our work was directed toward reviewing the State decisionmaking process through the selection of grantees, concentrating on the following issues:

- How did States meet their public participation requirements?
- How did States decide to use and distribute Small Cities Program funds and how did that method compare with what they told HUD in their statement of objectives and projected use of funds?
- What projects and activities did the States fund in 1982 and how did they compare with the 1981 HUD-administered Small Cities Program?
- What were the successful and unsuccessful applicants' perceptions of how well a State-administered program meets local needs compared with a federally administered program?

We reviewed the programs of seven States--Alabama, Delaware, Iowa, Kentucky, Massachusetts, Michigan, and Utah.

¹In August 1982, we provided the Congress an initial look at States' implementation of the 1981 legislation in our report entitled "Early Observations on Block Grant Implementation" (GAO/GGD-82-79). Also, on the basis of the preliminary results of this review on March 9, 1983, we provided a statement for the record before the Subcommittee on Housing and Urban Affairs, Senate Committee on Banking, Housing and Urban Affairs, on our views of States' early implementation of the Small Cities Program.

These seven States were allocated \$150.1 million of fiscal year 1982 small cities funding. This represents approximately 15 percent of the fiscal year 1982 funds available for small cities and 20 percent of the total funds allocated to those States that elected to administer the program in 1982.

We selected these States for review on the basis of the progress they had made in implementing the Small Cities Program--we excluded those States that had not essentially completed their selection of recipients by December 1, 1982. We initially based our selection on the 13 States included in our prior review. (See footnote on p. 33.) However, 6 of those 13 States--California, Colorado, Florida, New York, Vermont, and Texas--chose not to administer the program in fiscal year 1982. Three others--Mississippi, Pennsylvania, and Washington--although electing to administer the program, had not completed their selection process by December 1. Therefore, to obtain additional audit coverage and geographic balance, three States were added--Alabama, Delaware, and Utah.

In Alabama, we met with officials responsible for developing, designing, and implementing the Small Cities Program to obtain information and their views on (1) the State's decision-making process and (2) the State's administration of the program as opposed to HUD's administration of the program. We reviewed documents concerning the State's design of the program, public participation efforts, and all grantee applications to obtain detailed data on how local communities were planning to use Small Cities Program funds.

We took statistical samples of both the grantee and unsuccessful applicant universes in Alabama to determine if the State distributed funds and selected grantees in accordance with the procedures outlined in its statement of objectives and in accordance with the criteria it set up for that purpose. We reviewed the applications, supporting documentation, and the steps Alabama took to select the grantees over the unsuccessful applicants.

We also sent two questionnaires to the sample groups--45 of 106 grantees and 50 of 344 unsuccessful applicants--to obtain perceptions from the local communities on the HUD- and State-administered programs. For the State of Alabama, the response rates for the grantees and unsuccessful applicants were 76 and 62 percent, respectively. Because the response rate for unsuccessful applicants was relatively low, we did not project responses to either of the population universes in Alabama.

The successful applicant questionnaire was designed to obtain information on the local community's input into the State decisionmaking process in designing its program, the way in

which the community planned for, applied for, and is using the funding it received, and the community government's views on the way in which the State conducted the program compared with the past HUD-administered program. We asked that the views expressed be those of the highest level government official familiar with the community's experience under the program.

The unsuccessful applicant questionnaire was also designed to obtain information on the local community's input into the State's decisionmaking process in designing its program, the way in which the community applied for funds, and the community government's views on the way in which the State conducted the program compared with the past HUD-administered program. We also asked unsuccessful applicants questions concerning the State's decision not to fund their projects. As in the successful applicant questionnaire, we asked that views expressed be those of the highest level government official familiar with the community's experience under the program.

In Alabama, we also met with two regional planning commissions to determine their participation in the design of the State program and to obtain their views on the program and its administration.

In addition to visiting the seven States, we conducted our review at HUD headquarters and the HUD regional and area offices that were responsible for administering the 1981 Small Cities Program in the seven States.

At HUD headquarters, we reviewed the Small Cities Program's legislative history; HUD regulations, handbooks, and notices; and other HUD documents and analyses. We also interviewed office directors and other staff members involved with the Small Cities Program under HUD's Assistant Secretary for Community Planning and Development.

At the HUD Atlanta regional office and the Birmingham area office, we interviewed community planning and development officials and reviewed appropriate documents to gather information on HUD's role in assisting States in designing their Small Cities Program and to obtain views on the advantages and disadvantages of State administration of the Small Cities Program versus HUD administration. We also gathered detailed information from all of the grantee applications HUD funded in 1981 for the State of Alabama. These data were summarized along with with 1982 grantee application data and used to show how the funds were used under the State's decisionmaking process versus HUD's decisionmaking process.

Our review was made in accordance with generally accepted government auditing standards.