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Report to Congressional Requesters

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# URBAN ACTION GRANTS

## An Analysis of Eligibility and Selection Criteria, and Program Results

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**Economic Development Division**

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The Honorable Henry B. Gonzalez
Chairman, Committee on Banking,
Finance, and Urban Affairs
House of Representatives

The Honorable Donald W. Riegle, Jr.
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate

The Housing and Community Development Act of 1987 (P.L. 100-242) requires that the Comptroller General evaluate the eligibility standards and criteria used to select projects in the Urban Development Action Grant (UDAG) program. The program is administered by the Department of Housing and Urban Development (HUD) and, through grants, is designed to help alleviate physical and economic deterioration in severely distressed cities and urban counties. Specifically, the act requires the Comptroller General to (1) evaluate the extent to which the economic and social data utilized by the Secretary of HUD in awarding grants are current and accurate, (2) compare the data with other available data, (3) evaluate the effect of the grants awarded on the extent to which they stimulate the maximum economic development activity, and (4) make recommendations to the Congress on whether or not other data should be collected by the federal government or existing data should be collected more frequently.

We are not making recommendations regarding the collection of data because (1) the data HUD uses are the best available and approximately the same cities would be eligible if alternative eligibility methods were used, (2) alternative measures of distress have limitations similar to those currently used, (3) collecting additional information or more complete information would be costly, and (4) the Congress has not appropriated funding for the UDAG program for fiscal year 1989. However, the information presented in this report may be useful to the Congress in deciding whether to reauthorize the UDAG program or create a similar program in the future.

## Results in Brief

HUD generally considers the economic and social distress measures used in the UDAG program, such as poverty and unemployment rates, to be valid measures of distress. Although the data on these distress measures

are several years old and, in some cases, subject to accuracy limitations, HUD officials told us that, generally, they are the best and most current data available. On the basis of our analysis, we agree. In addition, alternative measures of distress, such as the percentage of female-headed households or crime rates, are also subject to timeliness, accuracy, and data availability limitations. Further, a 1981 Urban Institute study and two HUD studies have shown that the UDAG program eligibility standards and alternative eligibility methods generally result in the eligibility of the same group of cities.

Completed UDAG projects collectively reported that they exceeded the expected amount of private investment and came close to meeting jobs and housing expectations. However, many of the 1,282 UDAG projects completed as of November 1988 reported that they fell short of meeting their expected economic results (private investment, jobs, local tax revenues, and housing units). There are several reasons why projects may fall short of their goals: unrealistic expectations, developer nonperformance, inaccurate data on reported results, and changes to initial project expectations.

Project selection before 1988 was targeted to the most distressed eligible cities and was based primarily on distress measures, not on the expected economic benefits of projects. Consequently, such projects may not have provided the maximum economic development activity possible in terms of private investment, jobs, and taxes. The 1987 amendments reduced the emphasis given distress measures, and placed greater emphasis on economic benefits when selecting projects. Although the amendments resulted in the selection of fewer projects from the most distressed cities, and the selection of more projects with higher expected economic results, the most distressed cities continue to receive the largest proportion of UDAG funds.

## Background

The UDAG program, administered by HUD, is designed to foster private investment in industrial, commercial, or neighborhood projects in economically distressed communities. Generally, communities are considered economically distressed if they rank among the more needy half of all cities, nationwide, for specified measures of distress, such as the communities' percentage of pre-1940 housing, poverty, and unemployment. Essentially, the program provides funds to distressed communities, which then lend the funds to private developers, thus improving the feasibility of economic development projects that would otherwise not be implemented. HUD provides funding on an individual project basis.

The UDAG program requires that not less than 25 percent of all program funds go to small cities (generally cities with populations of under 50,000), with the balance going to large cities (generally cities with populations of 50,000 or more and urban counties). Small and large cities compete for UDAG funding separately.

Generally, eligibility for UDAG funds is based on a city's level of economic distress as measured by seven distress measures: (1) pre-1940 housing, (2) poverty, (3) population-growth lag, (4) unemployment, (5) per-capita income change, (6) job-growth lag, and (7) labor surplus area designation. In general, a city must meet or exceed thresholds, or standards, for three of the distress measures in order to be eligible for UDAG funds. The thresholds for each measure were not defined in the act, but were established through HUD regulations at the median level of large cities for each measure except for labor surplus area designation. (See tables I.1 and I.2 in app. I.)

Beginning in December 1983 and prior to the 1987 legislative changes to the selection criteria, UDAG project applications competed against each other on the basis of community and project factors. The selection criteria placed primary emphasis on community factors, which are based on the same distress measures used in determining eligibility. Project factors, which include such project-related measures as private investment, jobs, and local taxes, were given less emphasis than distress measures. Under the 1987 amendments, the selection criteria for awarding grants placed greater emphasis on project factors and less emphasis on distress measures.

UDAG program appropriations for fiscal years 1978 and 1979 were $400 million each. Appropriations peaked in 1980 and 1981 at $675 million each. Appropriations declined to $435 million in fiscal year 1982 and $440 million in each of fiscal years 1983, 1984, and 1985. Appropriations further declined to $315.8 million in fiscal year 1986, and declined again in fiscal year 1987, when they amounted to $225 million. Fiscal year 1988 appropriations amounted to $216 million. The administration's fiscal year 1989 HUD budget requested no funds, and the Congress appropriated none. However, HUD program officials estimate that about $50 million will be available to fund one round each of small- and large-city projects using funds HUD recaptures from canceled UDAG projects or projects requiring less funds than originally anticipated.

## The UDAG Eligibility Standards and Selection Criteria

To evaluate the UDAG program eligibility standards and selection criteria, and alternatives to these, we analyzed previous GAO, HUD, and other studies. Although the studies we reviewed identified a number of weaknesses with the UDAG eligibility standards and selection criteria, these studies also showed that alternative eligibility standards would have little effect on the list of cities that would be eligible for program funds.[1] Further, the studies show that the distress measures HUD uses for both eligibility and selection generally are valid measures of distress, and the best data available. Of the studies that have criticized the eligibility standards and selection criteria HUD uses, the major criticisms include the following: (1) HUD does not fully consider a city's relative degree of distress in determining eligibility, (2) the weight given to pre-1940 housing in project selection leads to regional biases, and (3) the data used for both eligibility and selection may not be timely and are inaccurate in some cases. (See app. I.)

### HUD Does Not Consider Extent to Which a City Meets or Exceeds Individual Eligibility Standards

Generally, a city is eligible to participate in the UDAG program if it meets or exceeds the median value for all large cities for three of HUD's seven economic distress measures, regardless of the extent to which the city exceeds that threshold. One exception to this general rule occurs if a city's percentage of poverty is less than one-half the threshold for poverty. Then, the city is required to meet four of the remaining thresholds to be eligible. In August 1988, HUD issued regulations which essentially treat the per-capita income change threshold in a similar manner as poverty.

This system does not recognize the extent to which a city meets or exceeds any one threshold. Some cities may not be eligible even though they greatly exceed two thresholds, but fall slightly short on the remaining thresholds. Further, a city that greatly exceeds all thresholds is equally as eligible as a city that barely exceeds three thresholds. HUD officials told us that although the eligibility standards do not consider the degree to which a city exceeds any one standard, the project selection criteria take this into account. Specifically, up to 70 of the currently possible 105 selection points are assigned on the basis of the city's relative distress as measured by the seven distress measures.

[1] Most of the studies we reviewed were published prior to 1984. HUD officials told us that there has not been any significant new research in urban economic distress measures in recent years and the information in these studies is still valid. (See bibliography of studies.)

HUD officials believe that, together, the project selection criteria and eligibility standards have resulted in a high degree of targeting of program funds to distressed cities. In its 1986 Consolidated Annual Report to Congress on Community Development Programs, HUD found that the introduction of the project selection system in fiscal year 1984 resulted in proportionately more funds being awarded to qualifying projects from the most distressed cities, and proportionately less funds to both the moderately distressed cities and the least distressed cities. According to HUD data, as of September 30, 1988, 65 percent of all large-city funds have gone to the most distressed large communities and 41 percent of the small-city funds have gone to the most distressed small communities.

In 1987 the Congress amended the project selection system. The legislative changes to the UDAG project selection system were designed to provide more uniform geographic distribution of awards by putting greater emphasis on the expected benefits of individual projects and less emphasis on existing community conditions. In an earlier report,[2] we found that the amendments resulted in the selection of projects from cities experiencing less economic distress than otherwise would have been the case, and the selection of projects with higher expected economic benefits, as measured by private investment, jobs, and local tax revenues. Although fewer projects were selected from the most distressed cities than would have otherwise been the case, such cities continue to receive the largest proportion of UDAG funds.

## Weight Given to the Age of Housing Selection Criteria

The percentage of housing built before 1940 (or "age of housing"), has been the most criticized measure of economic distress because it favors the northeastern states, which have a higher proportion of older housing stock. HUD officials acknowledge that the emphasis on age of housing skews the selection of eligible cities toward older urban areas, many of them located in the northeast, because the project selection system places greater emphasis on this distress measure than is placed on most of the other six distress measures that HUD uses in project selection. Currently, HUD assigns up to 17 selection points on the basis of a city's percentage of pre-1940 housing; the next largest number of points for large cities is 15 for per-capita income change and unemployment rate. Age of

[2]Urban Development Action Grants: Effects of the 1987 Amendments on Project Selection (GAO/RCED-89-64, Jan. 30, 1989).

housing was part of the eligibility standards of the authorizing legislation, which was aimed at alleviating physical and economic deterioration in severely distressed cities through (1) reclamation of neighborhoods having excessive housing abandonment or deterioration and (2) community revitalization in areas with a declining population or a stagnating or declining tax base.

## Timeliness and Accuracy of Data and Validity of Distress Measures

Although the data on distress measures used for determining both eligibility and selection are often several years old and subject to accuracy limitations, they are generally the best data available. Further, the studies we reviewed show that the distress measures HUD uses in determining eligibility and selecting projects generally are valid measures of city distress. The age of housing and poverty data are generated from the 1980 Census. Because of the time required for reviewing and processing the data collected and the fact that the data are collected every 10 years, these data may be 2 to 12 years old. In addition, some data are subject to sampling limitations, survey inaccuracies, methodological limitations, or reporting limitations. Officials from HUD, the Bureau of Labor Statistics, and the Bureau of the Census agreed that collecting data more frequently or more completely would be costly. In this regard, a 1979 study by the National Commission on Employment and Unemployment Statistics found that increasing the sample size for monthly unemployment estimates to all geographic areas where statistics were then required would cost about $2.3 billion a year (in 1979 dollars). It is unclear whether the benefits of collecting data more frequently or completely would exceed the expected costs.

## Alternative Eligibility Standards and Selection Criteria

Our 1980 report identified several possible methods, discussed in appendix I, that could be used to establish eligibility that would better recognize the severity of distress. However, various studies we reviewed show that the eligibility status of only a few cities would change under the alternative eligibility methods. One study concluded that the methods and criteria used in determining eligibility for the UDAG program perform as well as the alternatives examined. The studies we reviewed, and the officials we spoke with, cited a number of alternatives to one or more of the current distress measures used in eligibility and selection. Each of these alternative measures, however, may be subject to data accuracy, timeliness, and/or availability limitations.

## Stimulation of Economic Development Activity

As of November 1988, HUD had awarded 2,947 grants totaling $4.6 billion. Of these, 1,282, or 44 percent, have been completed.[3] In total, completed projects reported about $10.6 billion in private investment, 174,144 jobs, about $111 million in annual local taxes, and 28,052 housing units. These figures represent about 122 percent, 89 percent, 69 percent, and 95 percent, respectively, of that expected from those projects.[4] Similarly, on an individual project basis, many of the 1,282 completed projects reported results that fell short of those estimated by the prospective grantee in the approved grant application. Specifically,

- 548 completed projects, or about 43 percent of those completed projects with complete private investment data, reported lower private investment than was originally estimated;
- 592 completed projects, or 53 percent of those with complete total jobs data, reported fewer jobs;
- 545, or about 66 percent of those with complete local tax data, reported lower annual local tax revenues; and
- 60 of 168 completed neighborhood projects with complete housing data, or about 36 percent, reported fewer housing units.

The degree to which reported results fell short of estimates is described in appendix II.

Previous HUD and GAO reports identified several reasons that may explain why expected and reported results differ. First, some projects may have inflated expectations. Second, some projects may not have attained goals because of such factors as developer noncompliance and changing economic conditions. Third, reported data on project results may be inaccurate. Finally, project expectations may change after the grant application has been approved. HUD officials told us that grantees and developers cannot always predict what will actually happen with a high degree of accuracy since local economic conditions change rapidly.

Our review of fiscal year 1988 project applications showed that qualifying applications from the most economically distressed cities generally promised lower economic results (in terms of private investment and

[3]Completed projects are those for which, in general, all responsibilities and requirements under the grant agreement and applicable laws and regulations have been carried out satisfactorily as of November 1988.

[4]Information on the expected and reported results of UDAG projects should be used carefully for several reasons: (1) opinions from experts vary as to whether UDAG projects create a net gain in economic activity, (2) these measures of benefits do not take into account other public funds that may be used to attract private investment in some projects, and (3) reported data may be inaccurate.

local tax revenue per UDAG dollar, and UDAG dollars per job) than those from the least economically distressed cities. It is likely, therefore, that projects from the most distressed cities that were selected before 1988 primarily on the basis of community factors may not have provided the maximum possible private investment, jobs, and local tax revenues. Selected projects, however, would provide economic benefits in the most distressed cities, which the UDAG program was intended to benefit. However, we did not assess whether investment, jobs, and other benefits represent net gains to a community or shifts from one area to another, and whether the relative degree of any net gain in benefits varies with a city's level of distress.

## Conclusion

Although we identified weaknesses in the eligibility standards and selection criteria, we found that alternative methods that rank cities according to distress levels list cities in approximately the same order. In addition, although some of the individual distress measures rely on data that are old and subject to inaccuracies, they are the best data available, and alternative measures of distress have similar limitations. Also, HUD, Bureau of Labor Statistics, and Census Bureau officials believe that collecting additional information or more complete information would be costly. For these reasons, and because the UDAG program has not been funded for fiscal year 1989, we are not recommending that additional data be collected or that current data be collected more frequently for determining UDAG eligibility and selecting UDAG projects.

Although projects completed as of November 1988 collectively exceeded the expected amount of private investment, and came close to meeting jobs and housing expectations, they fell short of the expected amount of local taxes. In addition, many of the individual projects report that they have not produced the economic results expected of them. We also found that because project selection in many years was based primarily on distress measures and not project factors, selected projects may not have provided the maximum results possible in terms of private investment, jobs, and taxes. However, the 1987 legislative changes to the project selection criteria gave greater emphasis to project factors when selecting projects. In fiscal year 1988, this resulted in the selection of projects that expected higher results, and the selection of projects from cities experiencing less economic distress than otherwise would have been the case.

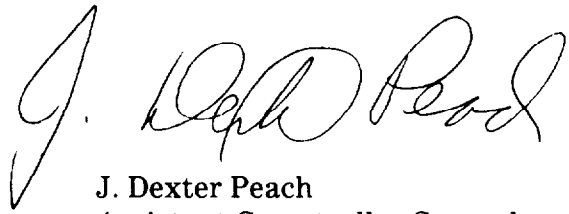
## Scope and Methodology

To evaluate the UDAG program eligibility standards and selection criteria, and alternatives to these, we analyzed previous GAO, HUD, and other studies. In addition, we interviewed officials at HUD, the Bureau of the Census, the Bureau of Labor Statistics, and the Office of Management and Budget; and urban development experts.

Our analysis of economic development activity used data from HUD's Action Grant Information System, which is used for tracking and monitoring grants under the UDAG program. Although we did not assess the reliability of these data, they are the only official data available. We compared the expected results of completed projects with those reported by the grantees. Information on expected results was derived from approved project applications, and reported results are derived from semiannual progress reports prepared by the grantee. However, information required to make comparisons of the expected and reported results was incomplete in some cases. Our work was conducted between August 1988 and February 1989 in accordance with generally accepted government auditing standards. (See app. III.)

We obtained oral comments from officials of HUD's Office of UDAG, Office of Program Analysis and Evaluation, and Office of Management on the draft report, and have incorporated their comments where appropriate. They generally concurred with our findings and conclusions. We also discussed the report's contents with officials of the Bureau of Labor Statistics, the Bureau of the Census, and the Employment and Training Administration, and have incorporated their comments where appropriate.

Copies of this report will be sent to the Secretary of Housing and Urban Development; the Director, Office of Management and Budget; and other interested parties. This report was prepared under the direction of John M. Ols, Jr., Director, Housing and Community Development Issues. Major contributors to the report are listed in appendix IV.



J. Dexter Peach
Assistant Comptroller General

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## Figures

## Abbreviations

| | |
|---|---|
| CDBG | Community Development Block Grant |
| GAO | General Accounting Office |
| HUD | Department of Housing and Urban Development |
| P.L. | Public Law |
| RCED | Resources, Community, and Economic Development Division |
| UDAG | Urban Development Action Grant |

# UDAG Eligibility Standards and Selection Criteria

This appendix evaluates the eligibility standards and selection criteria used in the UDAG program. It also evaluates the timeliness and accuracy of data used in both eligibility and selection as well as information on alternative measures of distress.[1]

HUD selects UDAG projects using a two-tier system, which is based on eligibility standards and selection criteria. Cities must first meet certain eligibility standards to qualify for program participation. Eligible cities then submit project applications which compete for funding on the basis of selection criteria. The eligibility standards are based on various economic, social, and physical distress measures, such as unemployment, poverty, and the age of housing. Selection criteria include the above distress measures plus project factors such as the amount of private investment, jobs, and taxes associated with the project.

In brief, we found that although the UDAG eligibility standards define about half of all large and small cities as "severely distressed,"[2] and do not take into account the severity of distress for most of the individual distress measures,[3] when combined with project selection criteria, which do consider severity, the eligibility standards result in greater targeting of UDAG funds to the most distressed cities. Further, HUD studies we reviewed showed that other urban distress measures that might be used for eligibility, including measures developed by the Brookings Institute and the Congressional Budget Office, would yield approximately the same group of cities as the UDAG eligibility standards yield. In addition, studies we reviewed found that the weight given to pre-1940 housing in selecting projects favors certain geographic regions of the country. While the economic data upon which HUD determines eligibility and selects projects are old in many cases, and are subject to accuracy limitations, HUD generally uses the most current data available. Further, these distress measures are generally considered to validly measure economic, social, and physical distress; and alternative measures of distress have similar weaknesses.

[1]To evaluate the UDAG program eligibility standards and selection criteria, and alternatives to these, we analyzed previous GAO, HUD, and other studies. Most of the studies we reviewed were published before 1984. HUD officials told us that no significant new research has taken place in urban economic distress measures in recent years and the information in these older studies is still valid.

[2]Under the UDAG program's eligibility standards developed by HUD, 444, or over 52 percent, of all large cities and urban counties are considered to be severely distressed and, therefore, eligible for participation in the UDAG program. In addition, approximately 10,000, or over 58 percent, of small cities are defined as being severely distressed and eligible for participation.

[3]Criteria for Participation in the Urban Development Action Grant Program Should Be Refined (CED-80-80, Mar. 20, 1980).

## UDAG Program Eligibility Standards

The legislative intent of the UDAG program is to help alleviate physical and economic deterioration in severely distressed cities and urban counties. The authorizing legislation did not specifically define what constitutes "severely distressed" or the percentage of cities intended to be the program's targeted recipients. Rather, the Secretary of HUD was given the discretion to issue regulations setting forth minimum standards for determining the level of physical and economic distress of cities and urban counties for eligibility in the program according to guidelines established in the authorizing legislation. Specifically, the legislation included four eligibility factors: (1) age and condition of housing, including residential abandonment, (2) average income, (3) population decline, and (4) stagnating or declining tax base. HUD chose six distress measures as direct or indirect measures for the four eligibility factors established in the legislation.[4] Those distress measures are listed in table I.1.

HUD developed eligibility standards whereby cities generally must exceed minimum thresholds for three distress measures.[5] In general, the minimum thresholds were set at the median value of each distress measure for all large cities. Table I.2 describes the standards for each eligibility measure as revised in October 1987.

**Table I.1: Distress Measures Used to Determine Eligibility in the UDAG Program in October 1987**

| Distress measure | Large cities and urban counties[a] | Small cities[b] 25,000 to 50,000 | Small cities[b] Less than 25,000 |
|---|---|---|---|
| Age of housing | X | X | X |
| Poverty | X | X | X |
| Population growth lag | X | X | X |
| Per-capita income | X | X | X |
| Unemployment | X | | |
| Job lag | X | X | |
| Labor surplus area | X | X | X |
| Number of standards that must be met[c] | 3 of 7 | 3 of 6 | 3 of 5 |

[a]A large city is defined as any central city in a metropolitan statistical area and any city with a population of over 50,000.

[b]Small cities include incorporated townships.

[c]If a city's percentage of poverty is less than one-half the HUD-established standard, then it must meet four standards.

[4]A seventh distress measure, labor surplus area designation, was added to the eligibility standards in 1984.

[5]Not including unemployment for small cities, and job lag for small cities with populations of less than 25,000.

**Table I.2: October 1987 Eligibility Standards for UDAG Distress Measures**

| Distress measure | Standard for eligibility |
|---|---|
| Age of housing | At least 20.2 percent of the applicant's year-round housing must have been constructed prior to 1940, on the basis of 1980 Census data. |
| Poverty | The percentage of people within the applicant's jurisdiction at or below the poverty level must equal 12.3 percent or more of the applicant city's or urban county's population, on the basis of 1980 Census data. |
| Population-growth lag | Small cities: For the period 1970-84, the percentage rate of population growth must have equalled 4.6 percent or less of the applicant city's population, on the basis of Census Bureau data.<br><br>Large cities: For the period 1960-84, the percentage rate of population growth must have equalled 25.3 percent or less of the applicant city's or urban county's population, on the basis of Census Bureau data. |
| Per-capita income | The net increase in per-capita income for the period 1969-83 must have equalled $6,203 or less per person, on the basis of Census Bureau data. |
| Unemployment | Large cities only: The average rate of unemployment for 1986 must have been 6.5 percent or greater of the applicant city's or urban county's population, on the basis of data compiled by the Bureau of Labor Statistics. |
| Job lag | The rate of growth in retail and manufacturing employment for the period 1977-82 must have increased by 3.3 percent or less, on the basis of Census Bureau data. This measure is not used for small cities with a population of less than 25,000. |
| Labor surplus area | A city or urban county must be at least partially within an area which meets the criteria for designation as a Labor Surplus Area as of April 1, 1987. Labor surplus area designation is given to areas whose unemployment rate is 20 percent above the national average for the previous 2-year period. These areas include cities with populations of 25,000 or more and counties with unemployment rates of 9 percent or more for calendar years 1984-85. |

[a]With the exception of labor surplus areas, HUD set the eligibility standards for both small and large cities at the median value of each measure for all large cities.

## Limitations of Eligibility Standards

While the eligibility standards and the selection criteria, in combination, increased targeting of UDAG funds to the most distressed cities, studies we reviewed described several criticisms of the eligibility standards used in the UDAG program. Among these are: (1) the eligibility standards do not take into account the severity of distress for most of the individual measures and (2) although eligibility standards rely upon data that are old in many cases, and subject to accuracy limitations, they are considered to validly measure distress. The first criticism is discussed below along with alternative eligibility indexes. Data limitations are discussed below under the segment on individual distress measures.

## Eligibility Standards Do Not Consider the Extent to Which a City Exceeds Standards for Individual Distress Measures

HUD's current process for determining eligibility for the UDAG program does not consider the severity of distress for each of the distress measures, except for poverty.[6] A city is given 1 qualifying point for exceeding the HUD-established threshold for each distress measure. Generally, a city must have 3 qualifying points to be eligible. In our 1980 report, we noted that because HUD's eligibility system did not recognize the severity of distress for individual measures, some cities may qualify by marginally meeting three of the distress measures. However, a city experiencing extreme distress on two measures, for example, would not qualify for the program even if it were only slightly below the threshold on the other distress measures.

For example, when HUD determined UDAG eligibility in 1987, Oneonta, a small city in Alabama, had a 21.9-percent poverty rate. At that time, the poverty standard for eligibility was that the poverty level be greater than or equal to 12.3 percent. Furthermore, Oneonta's per-capita income was $4,470 when the eligibility standard was for per-capita income to be less than or equal to $6,203. Although it exceeded the UDAG eligibility standards for poverty by 9.6 percentage points and had a per-capita income level that was $1,733 less than the eligibility standard, this city was ineligible because it did not meet any one of the remaining eligibility standards.

In our 1980 report, we stated that a system which awards eligibility points on the basis of the relative degree of distress on individual measures could minimize data accuracy problems because the extreme effects of small data errors would not occur. That is, under the current eligibility system, cities may be classified as meeting or not meeting thresholds based on unreliable data for one or more of the criteria. We reported that the data HUD used in determining eligibility were limited in accuracy, and a small error in data accuracy can make the difference between eligibility and ineligibility for a city. Because of this, we reported that according to a Census Bureau official, HUD's use of a threshold to establish eligibility may place undue reliance on distress measure estimates, particularly per-capita income. HUD officials agreed that there are some data accuracy problems in determining which cities are eligible. However, there is a degree of substantiation between the seven distress measures used for determining eligiblity to correct this problem, they said.

[6]In August 1988, HUD issued regulations under which it will consider the extent to which a city exceeds the standard for per-capita income change.

While about half of all cities are eligible for UDAG grants, the project selection criteria, which rely primarily on measures of severity of distress, further target UDAG funds to the most distressed cities. According to a June 1984 HUD study,[7] 38 percent of all eligible large cities and 90 percent of all eligible small cities had not received a UDAG award, at that time. However, HUD program officials told us that most qualifying applications were funded until December 1983, and that since then, with limited funds, emphasis has been given to distressed cities through the project selection criteria, and funding has become more targeted. This reduces the importance of eligibility standards, they noted. In its 1986 Consolidated Annual Report to Congress on Community Development Programs, HUD found that introducing the project selection criteria in fiscal year 1984 resulted in proportionately more funds being awarded to qualifying projects from the one-third most distressed cities, and proportionately less funds to both the one-third moderately distressed cities and the one-third least distressed cities.[8]

The 1987 amendments to the Housing and Community Development Act of 1974, however, reduced the emphasis on these distress measures in selecting projects. A 1989 GAO report[9] found that the legislative changes to the selection criteria resulted in a decline in the targeting of the UDAG program to the most economically distressed cities. Specifically, we found that projects from the one-third least distressed cities received UDAG grants as a result of these amendments, whereas they would not have received an award if the selection criteria had not changed. We concluded that future program funds might be directed less to the most economically distressed cities nationwide because of changes to the selection criteria.

[7]Proposals for Improving UDAG Funds Distribution, Office of Program Analysis and Evaluation, Office of Community Planning and Development, U.S. Department of Housing and Urban Development, June 12, 1984.

[8]As measured by "impaction," which takes into account the percentage of pre-1940 housing, the extent of poverty, and the degree of population growth lag/decline.

[9]Urban Development Action Grants: Effects of the 1987 Amendments on Project Selection (GAO/RCED-89-64, Jan. 30, 1989).

## Using Alternative Eligibility Methods May Not Change the Group of Cities That Are Eligible

Although the UDAG eligibility standards have their weaknesses, they generally identify the same group of cities as other eligibility methods do. In our 1980 report, we suggested several alternative statistical techniques for determining UDAG program eligibility. As a result, in 1981, the Urban Institute tested the impact of these alternative approaches.[10] Its study concluded that the methods and criteria HUD used in determining eligibility for UDAG perform as well as the alternatives examined. Specifically, they found that by using a quartile method, 31 cities would be added to the list of eligible cities and 29 would be dropped.[11] The Institute also found that under a standardized score method, 26 cities would be added to the UDAG eligibility list and 26 cities would be dropped from the list.[12]

In addition, we reviewed two HUD studies that compared various urban distress measures and concluded that the different urban distress measures generally yield the same group of distressed cities. A 1979 HUD study[13] compared the UDAG eligibility ranking with a Brookings Community Development Block Grant Index,[14] a Congressional Budget Office

[10]Donald M. Manson, Determining UDAG Eligibility: Impact of Alternative Approaches, the Urban Institute, Jan. 1981.

[11]Under the quartile method, the six UDAG distress measures for cities in the sample were arrayed from the greatest to least distressed and quartile breaks determined. Three points were assigned to a city distress index for each criterion falling into the highest (most distressed) quartile, 2 for the second highest, 1 for the third, and zero for the last (least distressed) quartile. Cities scoring 7 or fewer points were classified as ineligible. Those scoring 8 points were removed from the sample because their eligibility status was indeterminate under the constraint of maintaining equal eligibility proportions most like the current UDAG approach. These deleted cities were later allocated to eligibility groups on the basis of the proportion that was eligible under the current UDAG method.

[12]Under the standardized score method, the Urban Institute divided the difference between the value for each UDAG criterion for a city and the sample mean by the standard deviation. The standardized scores were then "capped" to limit the effect of severe data errors or special circumstances. Cities with standardized scores greater than -0.639 were considered eligible for UDAG.

[13]Pockets of Poverty: An Examination of Needs and Options, U.S. Department of Housing and Urban Development, Office of Community Planning and Development, May 29, 1979.

[14]The Brookings Community Development Block Grant Index uses three measures—per-capita income, pre-1940 housing, and the percentage of population change—to form a ratio.

Economic Index,[15] and a HUD Needs Index.[16] These other indexes were designed for analytical purposes only, and not for eligibility in any specific program. Therefore, they simply rank cities in their order of distress, and do not establish a cut-off on the number of eligible cities. The HUD study concluded that the UDAG eligibility standards "currently generate a list of distressed communities which appears reasonable and which parallels in many ways similar lists developed by experienced analysts and reputable groups outside of HUD." In addition, a 1981 HUD study[17] found a high correlation between the UDAG eligibility ranking for large cities and HUD's Community Economic Need Index.[18]

## UDAG Project Selection Criteria

From the start of the UDAG program in April 1978 through fiscal year 1983, there was no need for a project selection system because enough funding was available for all qualifying applications. By fiscal year 1984, however, this was no longer possible because more funds were requested for qualifying applications than the funds available. As a result, in December 1983, HUD initiated a competitive selection system based on three groups of selection criteria contained in the Housing and Community Development Act of 1974, as amended. Those three groups of criteria include (1) the comparative degree of economic distress among applicants, as measured by age of housing, extent of poverty, and population growth lag (collectively called "impaction" by HUD), (2) the comparative degree of economic deterioration in cities and urban counties (defined by HUD as "distress" and including per-capita income change, unemployment rate, and job lag for large cities; and per-capita income change and labor surplus area unemployment for small cities),

[15]The Congressional Budget Office Index uses six measures—the percentage of change in manufacturing jobs; percentage of change in population; percentage of change in resident per-capita income; and percentage of change in total area employment, density, and proportion of housing stock built before 1940—which are combined and weighted equally.

[16]The HUD Needs Index uses 20 measures which contribute to 3 factors—poverty, age of housing and population decline, and density—weighted 0.4, 0.35, and 0.25, respectively. Poverty contains measures of the proportion of poor persons under age 18, proportion of poor persons, and proportion of nonwhite population. Age and population decline contain measures including the percentage change in population, proportion of housing stock built before 1940, and percentage of change in number of retail sales establishments. Density measures include violent crimes per 10,000 of the population, population per square mile, and the proportion of occupied units that are rented.

[17]Robert L. Goldberg, Geographic Targeting of Economic Development Aid, U.S. Department of Housing and Urban Development, Office of Community Planning and Development, May 4, 1981.

[18]Five measures are used in HUD's Community Economic Need Index—the unemployment rate, weighted 0.30; poverty rate, weighted 0.25; net growth in per-capita income, weighted 0.20; percentage of change in per-capita income, weighted 0.10; and percentage of growth in manufacturing and retail jobs, weighted 0.15.

and (3) other criteria related to project quality such as private investment, and the number of permanent jobs to be generated.

Beginning in December 1983, and until enactment of the 1987 amendments, HUD awarded grants on the basis of a 100-point system, whereby up to 40 points were assigned for impaction, up to 30 points were assigned for distress, and up to 30 points were assigned for project factors. Under the 1987 amendments, total selection points are 105; 35 are for impaction, 35 for distress, 33 for project factors, and 1 or 2 bonus points are for cities that have not received a grant in the preceding 1- or 2-year period, respectively. Table I.3 summarizes the current project selection point system.

**Table I.3: UDAG Project Selection System**

| Selection category | Selection measure[a] | Maximum points |
|---|---|---|
| Impaction | Pre-1940 housing (17)<br>Extent of poverty (11)<br>Population growth rate (7) | 35 |
| Distress | Large cities and urban counties:<br>Per-capita income change (15)<br>Unemployment rate (15)<br>Job lag (5)<br><br>Small cities:<br>Per-capita income change (18)<br>Labor surplus area designation (17) | 35 |
| Other | Leverage ratio (10)<br>Permanent jobs (3)<br>UDAG funds per permanent job (7)<br>Percentage of low/moderate-income jobs (2)<br>Percentage of minority jobs (2)<br>Retained jobs (2)<br>Pressing employment need (1)<br>Pressing residential need (1)<br>Tax benefits per UDAG dollar (2)<br>State/local funds per UDAG dollar (2)<br>Federal enterprise zone designation (1) | 33 |
| Bonus | | 2 |
| **Total** | | **105** |

[a]Numbers in parentheses indicate point system to be used in fiscal year 1989.

## Limitations of Selection Criteria

In a 1985 report,[19] we identified four weaknesses in the UDAG selection criteria: (1) too much weight is given to a city's economic distress and too little to the merits for the proposed project, (2) some cities are

[19]The Urban Development Action Grant Application Selection System: Basis, Criticisms, and Alternatives (GAO/RCED-85-77, Mar. 11, 1985).

locked in as winners in each funding round without regard to prior awards and their benefits, (3) too much weight is given to pre-1940 housing, and (4) the data used to measure urban economic, social, and physical distress are out of date. The 1987 amendments addressed two of the four selection criteria weaknesses we identified in 1985. That is, while the amendments gave greater emphasis to the merits of proposed projects and granted special consideration to cities that had not recently received a UDAG, the emphasis given to pre-1940 housing remained essentially unchanged in relation to the remaining distress measures, and the data used to measure distress are unchanged.

The 1987 amendments were intended to provide more uniform geographic distribution of awards by increasing the emphasis given to project merit, and awarding 1 or 2 bonus points to cities that had not received an award in the previous 1- or 2- year period, respectively. In our 1989 report, we found that the legislative changes to the UDAG project selection system resulted in the selection of projects with higher expected economic benefits, as measured by private investment, jobs, and local tax revenues; and a somewhat broader geographic distribution of program funds.

While the 1987 amendments reduced the emphasis of all the distress measures, including age of housing, the amendments did not change the weight given to age of housing in relation to poverty and population growth rate, and age of housing is weighted more heavily than most other distress measures used for selecting UDAG projects.[20] In our 1985 report, we noted that some city officials criticized the age of housing selection criteria. They believed that too much weight is given to pre-1940 housing, which adversely affects newer cities with growing boundaries, and that pre-1940 housing is not an accurate indicator of the condition of housing. Our report further notes that some of HUD's project selection task force members stated that since the focus of the program is on economic development, there may be a strong case for de-emphasizing pre-1940 housing.

According to HUD officials, the weight placed on age of housing skews eligibility toward the northeast and may no longer be appropriate. The original intent of the program was to aid those older cities that were losing Community Development Block Grant funding in the late 1970s,

[20]Currently, HUD assigns up to 17 selection points on the basis of a city's percentage of pre-1940 housing. For large cities, the next largest number of selection points is 15 for per-capita income change and unemployment rate. For small cities, 18 points may be assigned on the basis of per-capita income change, and 17 points may be assigned on the basis of labor surplus area designation.

they said. At that time, the most distressed cities were older urban areas, many of them located in the northeast, suffering from population decline and its associated economic problems.

## Individual Eligibility and Selection Measures Are Limited in Timeliness and Accuracy, but Still Considered as Valid Measures of Economic Distress

Although HUD uses the most current economic and social data available, the data are often out of date. The data are also subject to accuracy limitations resulting from how the data are collected and prepared. The studies we reviewed, however, show that the distress measures that HUD used in determining eligibility and selecting projects generally are valid measures of a city's economic distress.

Officials from HUD, the Bureau of Labor Statistics, and Census Bureau told us that collecting the data more frequently and completely would be costly. The estimates prepared between decennial censuses could be expanded for an additional $500,000 to $1 million, according to a Census Bureau official. This official stressed, however, that the Census Bureau generally would not expand its data collection efforts to collect additional data for only one federal program. A 1979 study by the National Commission on Employment and Unemployment Statistics showed how costly expanding data collection can be. The study shows that increasing the sample size for monthly unemployment statistics to all areas where statistics were then required would cost about $2.3 billion a year (in 1979 dollars). Unemployment statistics are collected by the Census Bureau and State Employment Security Agencies for the Bureau of Labor Statistics.

## Some UDAG Distress Measures Are Outdated

Although HUD uses the most recently available data in establishing its eligibility lists, some of the data are outdated. While HUD revises its eligibility list about annually, when selecting projects throughout the year, it uses the same data as it uses in revising eligibility lists. In our 1985 report, we noted that members of HUD's project selection task force agreed that the data used to measure distress are out of date. They said, however, that this situation could possibly be remedied if updated data were available. However, these data must be updated and certified by the Census Bureau and/or the Bureau of Labor Statistics and must refer to the same time period.

Generally, the distress measures may range from 1 to 12 years old when used for the UDAG program, and are provided to HUD by the Census Bureau, the Bureau of Labor Statistics, and the Department of Labor's Employment and Training Administration. The oldest data, for age of

housing and poverty, come from the 1980 Census, and are currently 9 years old. According to HUD officials, data from the 1990 Census will not be available until 1992 because of the time required for reviewing and processing the data.

Unemployment data provide the most current information on relative economic conditions in cities and urban counties. The Office of UDAG uses 12-month average bench-marked data compiled from monthly estimates prepared by the Bureau of Labor Statistics. The Bureau recommends that executive agencies use 12-month averages for unemployment statistics only. Annual unemployment data are available 3 months following the 12-month collection period, and the timeliness of the data HUD uses is determined by the frequency of updates of the eligibility list. The UDAG unemployment data used for eligibility and selection are currently 3 years old. Data for the rest of the distress measures can range from being 2 to 7 years old. (See table I.4.)

The distress measures that indicate change over time (population growth lag, job lag, and net change in per-capita income) use base-year measurements for comparison with the current data. Population growth lag has been criticized for the age of its base year. HUD officials believe that moving the base year from 1960 to 1970 will hurt those cities that entered into a period of decline in the 1960s and are now slowly regaining population.

**Table I.4: Timeliness of the UDAG Data**

| Distress measure | Source | Timeliness |
|---|---|---|
| Percentage of pre-1940 housing (age of housing) | 1980 Census sample | Data are currently 9 years old. Since data from the 1990 Census will not be available until 1992, data can range from being 2 to 12 years old. |
| Poverty | 1980 Census sample (adjusted for boundary changes through 1983) | Data are currently 9 years old. Since data from the 1990 Census will not be available until 1992, data can range from being 2 to 12 years old. |
| Population growth lag | 1984 Census Bureau population estimates | Data are currently 5 years old. Estimates are prepared every 2 years. |
| Unemployment | 1986 Bureau of Labor Statistics data | Data are currently 3 years old.<br><br>Provides most current information on relative economic conditions in cities and urban counties.<br><br>Data collected monthly by the Current Population Survey and Bureau of Labor Statistics Handbook Method. Office of UDAG uses the previous calendar year's bench-marked data compiled from these monthly estimates. |
| Per-capita income | 1983 Census Bureau estimates | Data are currently 6 years old. Per-capita income estimates are prepared every 2 years. |
| Job lag | 1982 Census data | Data are currently 7 years old.<br><br>Data are collected every 5 years and reflect the loss of jobs from the year previous to the collection time. It then takes the Census Bureau about 1 year to review and analyze the data. Therefore, data can range from being 2 to 7 years old. |
| Labor surplus area | Labor surplus area designations by the U.S. Department of Labor, Employment and Training Administration, as of April 1, 1987 | Designation used by HUD is currently 2 years old.<br><br>Labor surplus area designations use the unemployment rate from the previous 2 calendar years and are typically published in October. However, the designation is designed to measure long-term unemployment, not current unemployment. |

## Data Are Limited in Accuracy, but Provide Valid Measures of Distress

All of the UDAG distress measures are limited by some degree of inaccuracy. Studies we reviewed show a number of weaknesses with these distress measures. Because distress measures are based on sample data, they are subject to sampling limitations to some degree, including error rates and decreased accuracy at the small-city level. The data on age of housing and poverty are based on the 1980 Census sample. The sample size was 1 in 6 households for the majority of the United States and 1 in 2 households for places with populations of less than 2,500. Despite the large sample size for small cities, the data generally are less accurate for the smallest cities, according to Census Bureau officials.

For the most part, the studies we reviewed found that the UDAG measures validly reflect city economic distress. Generally, age of housing is

the most criticized of the UDAG eligibility and selection criteria, while poverty is the least criticized. In some cases, the UDAG distress measures are highly correlated to one another, and HUD officials we spoke with said that highly correlated distress measures may be duplicative. For example, population growth lag is highly correlated to age of housing, poverty, and per-capita income. This means that a city with a large share of older housing is more likely to have a high poverty rate and per-capita income loss.

## Age of Housing

Data for the age of housing are collected in the decennial census sample. The 1980 Decennial Census sample covered about 19 percent of the nation's households. Accuracy studies conducted by the Census Bureau following the 1980 Decennial Census[21] show single-unit households having a national error rate of 2.1 percent, and multiunit buildings having a national error rate of 4.8 percent. However, officials of the Census Bureau stated that the error rate for individual cities may be higher. HUD officials agreed, stating that the age of housing distress measure is a "best guess" for small cities.

Response errors also limit the age of housing distress measure. Census officials told us that confusion exists on the part of tenants/owners as to when their building was built. Specifically, confusion often arises when the building has been remodeled, causing the tenant/owner to report that the building is younger than it actually is. A "don't know" response will be added to the 1990 Census question pertaining to when the respondent's housing unit was built. By adding this response, Census officials stated that they hope to better predict the actual age using statistical techniques.

We found that the age of housing is the most criticized of the UDAG eligibility and selection criteria because of its focus on the northeast, and because it does not take into account the condition of housing stock. Some studies, however, found that areas with older housing tend to have outmoded infrastructures. In addition, one of these studies linked the age of housing to economic decline such as high tax effort, lagging fiscal capacity, population decline, the percentage of change in business establishments, retail sales, and the assessed value of properties.

[21] 1980 Census of Population and Housing: Content Reinterview Study: Accuracy of Data for Selected Population and Housing Characteristics as Measured by Reinterview, U.S. Department of Commerce, Bureau of the Census, Evaluation and Research Reports, PHC80-E2, Sept. 1986.

Another study associated the age of housing with the incidence of abandonment, and housing inadequacy. In its 1983 study, however, HUD stated that pre-1940 housing is much less associated with infrastructure problems than abandonment problems, and represents a relatively low share of the stock of inadequate housing. In its report, City Need and Community Development Funding, HUD found the age of housing to be highly correlated to employment trends, already measured with the job-lag distress measure.

## Poverty

Poverty statistics are based on the 1980 Census sample, which covered about 19 percent of the nation's households. Therefore, poverty statistics are limited by the sampling error associated with the decennial census. In addition, HUD studies[22] show that poverty data (as well as population growth lag, and unemployment data) may be affected by an under-counting of the poor and minorities.

A number of sources,[23] including officials at HUD and the Census Bureau, note that poverty data are limited because the 1980 Census did not consider cost-of-living differences between cities in defining poverty. In addition, officials at the Census Bureau told us in June 1988 that poverty does not consider cost-of-living differences, which may vary widely even within a state.

While the use of poverty data has been criticized because it does not consider cost-of-living differences between areas of the country, HUD considers it to be one of the best indicators of urban distress. According to a July 1983 HUD study,[24] poverty is one of the most reliable predictors of community development problems such as inadequate housing, housing abandonment, crime, and neighborhood blight. HUD studies found poverty to be an excellent indicator of social need and potential fiscal

[22]Harold L. Bunce, and Robert L. Goldberg, City Need and Community Development Funding, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, Division of Evaluation, Jan. 1979; and Harold L. Bunce, Sue G. Neal, and John L. Gardner, Effects of the 1980 Census on Community Development Funding, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, Community Development and Fair Housing Analysis Division, July 1983.

[23]Harold L. Bunce, and Robert L. Goldberg, City Need and Community Development Funding, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, Division of Evaluation, Jan. 1979; and Criteria for Participation in the Urban Development Action Grant Program Should be Refined, U.S. General Accounting Office (CED-80-80, Mar. 20, 1980).

[24]Harold L. Bunce, Sue G. Neal, and John L. Gardner, Effects of the 1980 Census on Community Development Funding, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, Community Development and Fair Housing Analysis Division, July 1983.

burden and a good proxy for underemployment or ill-paid employment, conditions HUD finds are inadequately measured by present unemployment indicators.

## Population Growth Lag

Population growth lag measures the percentage of change in population from a base year (1960 for large cities and 1970 for small cities) to 1984. According to our 1980 report, Census Bureau evaluations of population estimates disclosed a 2.9-percent variation between 1976 Census estimates and actual counts of population for areas with populations of 50,000 or more. However, a Census official told us that the error rate of population estimates ranges from 1 to 2 percent.

According to the 1979 HUD report, City Need and Community Development Funding, population growth lag is subject to the same survey weakness as the poverty distress measure. That is, the Census systematically under-counted minorities and resident aliens in the past. The report did not elaborate on why this occurred.

Similarly, that same HUD report and our 1980 report both noted that large-city population growth lag data with a base year of 1960 are not adjusted for annexations.[25] We stated that this can unfairly cause a city to appear to have increased in population, when in actuality, it has grown in area also. For small cities, HUD used 1970 as the base year. These data are reflective of annexations.

While population growth lag has been cited as a substitute for a number of distress indicators, such as loss of jobs, decline in tax base, and run-down neighborhood conditions, it has also been criticized for favoring older communities, and for its use of 1960 as a base year for large cities.

Researchers from Rutgers University's Center for Urban Policy Research,[26] approve of using population growth lag as a measure of distress, stating that relatively minor changes in population can have significant repercussions on an area's economic resource base. HUD studies show a high correlation between population decline and indicators of city distress, including decline in tax base, housing abandonment, run-down neighborhood conditions, crime, neighborhood deterioration, and

[25]Generally, annexations occur when an existing city takes over an unincorporated area.

[26]Robert W. Burchell, James H. Carr, Richard L. Florida, and James Nemeth, The New Reality of Municipal Finance: The Rise and Fall of the Intergovernmental City, Center for Urban Policy Research, Rutgers, the State University of New Jersey, New Brunswick, N.J., 1984.

fiscal strain. One HUD study noted that population growth lag reflects the middle class flight from cities and the problems associated with a declining tax base.

Conversely, in its report City Need and Community Development Funding, HUD found population growth lag to be highly correlated with three UDAG distress measures (the age of housing, poverty, and per-capita income change). In this and other reports, HUD stated that this distress measure favors older communities, benefiting communities in the northeast more than other regions of the country. In addition, population growth lag is more closely associated with distressful conditions such as unemployment, low income, and job loss in large cities than in small ones. In our 1980 report, we stated that the base years of 1960 and 1970 for large and small cities, respectively, may measure population change over a longer period of time than is relevant to measure current population change patterns.

## Unemployment

Unemployment statistics are subject to a number of methodological weaknesses. Officials at the Bureau of Labor Statistics stated that local area unemployment estimates are determined from a methodology whose reliability is not measurable. However, comparisons between the decennial census and the local unemployment statistics collected monthly showed no systemic biases in one direction or the other. In 1989, the Bureau of Labor Statistics introduced a new method using regression analysis rather than the different methodologies used previously. The officials we spoke with believe this new method should improve the monthly local area unemployment estimates. The calendar year estimates used by HUD remain the same.

Officials at the Bureau of Labor Statistics stated that the data are most reliable on the national level, and for the 11 largest states. Data for the rest of the states and cities are less reliable. In fact, HUD chose not to use the unemployment distress measure for small cities. According to our 1980 report, unemployment data are not reliable on the local level, mainly because of methods used to (1) estimate the local labor force outside of the unemployment insurance system and (2) break down labor market statistics into smaller areas. Officials at the Bureau of Labor Statistics told us that improvements have been made since 1980; however, small area unemployment estimates remain the weakest area in local area unemployment estimating.

Some studies criticize the unemployment data for how they define unemployed persons. A number of HUD studies criticize the unemployment statistics for not taking into account discouraged workers or the length of unemployment. The reports state that considering discouraged workers and the length of unemployment would distinguish cities with temporary unemployment from those with chronic unemployment.

According to a 1981 HUD study,[27] the unemployment rate has been the most influential national and area-specific measure of economic hardship. The study praises the distress indicator for its timeliness and ability to compare relative employment needs of different localities. In addition, HUD's "Pockets of Poverty" report stated that unemployment rates are reasonably well correlated with urban distress, such as crime, neighborhood deterioration, and loss of major industry. However, the Center for Urban Policy Research report claims that unemployment rates can be as high in growing areas as in declining areas.

## Per-Capita Income

Per-capita income data measure the change in average resident income from 1969 to 1983. The 1969 data are derived from the 1970 Census and are less reliable than the 1979 data, which are derived from the 1980 Census. According to the Census Bureau's Current Population Reports,[28] the 1980 Census per-capita income figures for small areas are subject to sizable sampling variability, causing them to lack sufficient statistical reliability. In addition, that report stated that the per-capita income estimates made in 1979 for the 1980 Decennial Census vary on average by 17 percent for subcounty areas, ranging from 4.7 percent for areas of greater than 50,000 population to 62.5-percent error in areas with populations of less than 100.

The studies we reviewed disclosed some methodological weaknesses with the per-capita income distress measure. In its 1979 report City Need and Community Development Funding, HUD found that an inherent distortion of per-capita income as a measure of capacity arises from the considerable variation of the average household size between cities. Although two cities could have the same per-capita income, a city with a larger average household size would have a higher household income

[27]Robert L. Goldberg, Geographic Targeting of Economic Development Aid, U.S. Department of Housing and Urban Development, Office of Community Planning and Development, May 4, 1981.

[28]Local Population Estimates: South: 1986 Population and 1985 Per Capita Income Estimates for Counties and Incorporated Places, U.S. Department of Commerce, Bureau of the Census, Series P-26, No. 86-S-SC, Mar. 1988.

than a city with fewer persons per household, and could therefore afford more for private housing or community development. In addition, another 1979 HUD report stated that the 1970 Census did not adjust for cost-of-living differences between regions. An official at the Census Bureau told us that per-capita income data are not adjusted for cost of living for all geographic areas. In addition, Census officials stated that income data suffer from underreporting, particularly data on unearned types of income, such as interest and dividends, public assistance, and social security.

In 1984, the Center for Urban Policy Research cited per-capita income as the most commonly utilized and perhaps the best indicator of socioeconomic distress. According to a 1984 study prepared by the Center, per-capita income reflects the size and strength of local purchasing power, a factor bearing directly on the health of consumer-oriented industries.

## Job Lag

HUD defined job lag for the UDAG program as the rate of growth in retail and manufacturing employment for the period 1977-82. Job-lag data come from a complete count of all retail and manufacturing firms above a certain size. The Census Bureau conducts its Economic Census, including the Census of Manufacturing and Census of Retail every 5 years. Census officials told us that report forms are sent to 200,000 of 350,000 manufacturing establishments, which make up over 98 percent of all manufacturing employees. The response rate is approximately 85 percent, and the information collected makes up approximately 92 percent of the data. The remaining information is estimated. Similarly, for the Census of Retail, 877,000 of 1.5 million retail businesses were mailed forms in 1987. All retail data are published regardless of employment size.

HUD has defined job lag to include only retail and manufacturing employment. As stated in our 1980 report, this may not be reflective of the entire economy. More recently, Census officials told us that including the services or financial sectors might be more indicative of the total economy than using retail and manufacturing alone. In addition, the 1981 Urban Institute study mentioned that the use of post office addresses often masks the actual location of retail establishments.

Job-lag data are also limited in their reporting. Census officials told us that the Census Bureau may not disclose any information about individual manufacturing firms in its reports. Therefore, if there is only one industry in a locality, or information provided may reveal sensitive

information about a particular firm, the Census Bureau may not publish it. Census officials concluded that this has a more detrimental effect on small cities, where the possibility of one-firm towns is greater. HUD officials told us that the data are difficult to collect on the city level since they are summarized to reflect national, state, and county trends. Finally, officials at HUD and the Census Bureau told us that there are coding problems with job-lag data. A HUD official estimated that in one out of every four cases where HUD questioned Census manufacturing data, coding errors were found.

HUD and others consider job lag to be a good measure of a city's employment status and tax base. According to HUD's 1979 report, City Need and Community Development Funding, job lag serves as a proxy for urban blight, lack of economic opportunity, and detrimental living conditions, as well as a measure of tax base information. Furthermore, HUD's "Pockets of Poverty" report states that job lag reflects the loss of high-paying manufacturing jobs, which undermines fiscal capacity and retail jobs, in turn hurting less skilled workers.

While HUD found that job lag is a good measure of various distressful conditions, according to HUD, job lag is highly correlated to population growth lag. One HUD official said that deleting this distress measure (population growth lag) would be helpful to the UDAG program. Census Bureau officials noted that HUD's inclusion of retail and manufacturing job lag does not take into account other sectors of the economy, such as the services and financial sectors.

## Labor Surplus Area

Labor Surplus Area designation is given to areas whose local area unemployment rate is 20 percent above the national average for the previous 2-year period. It is intended to measure long-term unemployment. These areas include cities with populations of 25,000 or more and counties with unemployment rates of 9 percent or more for calendar years 1984-85. Officials at the Bureau of Labor Statistics told us that because data for labor surplus area designation are based upon local area unemployment rates, they are subject to the same reliability uncertainties associated with local area unemployment. In addition, HUD officials stated that the designation is made at the county level, not by individual cities. This limits its accuracy in assessing long-term unemployment needs of smaller individual cities.

HUD and Department of Labor officials both claimed that labor surplus area designation is a good indicator of economic need. According to a

HUD official and an official at the Department of Labor, this distress measure indicates where unemployment is a long-term problem. In addition, HUD officials stated that since labor surplus area designation is based on unemployment in a 2-year period, it gives a better indication of need than the unemployment distress measure, which is a yearly estimate. Again, critics of this distress measure cite the same reliability weaknesses as with unemployment.

## Alternatives to the UDAG Distress Measures

The studies we reviewed, and officials we spoke with cited many alternative measures of urban distress. These measures may serve as alternatives to one or more of the current UDAG distress measures used in determining eligibility of cities, and selecting projects. Each of these alternative measures, however, may be subject to data accuracy, timeliness, and/or availability limitations. For presentation purposes, we grouped alternative distress measures in three categories that are cited in the studies we reviewed. Those three categories are economic distress, social distress, and physical distress.

### Economic Distress Measures

The studies we reviewed and officials we spoke with identified a number of possible alternative measures of economic distress. Among these are: retail sales, service receipts, wholesale trade, new capital expenditures, and data on the number and type of businesses in a city. Each of these measures is discussed below.

#### Retail Sales

In our 1980 report, we suggested that a decline in retail sales could be a good indicator of a city's economic distress. According to a 1979 HUD study,[29] sales volume serves as a proxy for urban blight, lack of economic opportunity, and detrimental living conditions. The 1984 Center for Urban Policy Research study found retail sales to be strongly linked to the economic characteristics of a resident population. That is, when population is declining and income levels are dwindling, retail sales will experience slower growth rates. However, a 1981 Urban Institute study found that no change takes place in the distribution of eligible UDAG cities if retail sales are substituted for retail employment. Furthermore, the HUD study cautioned that retail sales data contain boundary definition problems, but did not elaborate on what these problems are.

[29]Harold L. Bunce, and Robert L. Goldberg, City Need and Community Development Funding, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, Division of Evaluation, Jan. 1979.

## Service Receipts

Census Bureau officials suggested including service receipts as an indicator of economic distress, stating that the service census is considered particularly important since the service industry contains the highest percentage of new jobs. Service receipts measure income from the service sector, including legal services, social services, and hotel services, and are collected by the Census Bureau in the 5-year economic censuses. As with retail sales, the 1984 Center for Urban Policy Research study stated that service receipts are strongly linked to economic characteristics of a resident population.

Officials at the Census Bureau told us that there will be a major expansion to the economic census in 1992. The retail census will be picking up finance, insurance, and real estate industry data on sales receipts, payroll, and employment. They told us that these areas are currently excluded from the census and make up a continually growing proportion of the economy.

## Wholesale Trade and Other Economic Distress Measures

The 1984 Center for Urban Policy Research study offered a number of other measures of economic distress. The study found wholesale trade[30] to be a measure of economic distress that should be considered since wholesale trade principally serves other businesses. The Census Bureau includes wholesale trade in its 5-year economic censuses. According to the study, wholesale trade sales fluctuate with a changing business climate. The study also suggested investments in new plants and equipment, or new capital expenditures, as a measure of economic conditions. The authors consider private-sector investment the most vital component of urban economic growth. According to that report, private spending represents a vote of confidence by the private sector with regard to a locality's economic health and adds directly to the resource base of the community. That is, when industrial equipment is upgraded and improved, municipal revenues increase. In addition, the study mentioned total establishment data—a measure of the total number and types of businesses in a city—as an economic indicator, since it has direct implications for a municipality's property tax base, which is not conveyed by employment data. According to their study, establishment data offer a clearer picture of the diversity of a city's economy, since a less diverse economy implies a greater risk from economic trends.

[30]Wholesale trade includes establishments primarily engaged in selling merchandise to retailers; to industrial, commercial, institutional, farm, construction contractors, or professional business users; or to other wholesalers; or establishments acting as agents or brokers in buying merchandise for or selling merchandise to such persons or companies.

## Social Distress Measures

The studies we reviewed and officials we interviewed identified several possible alternatives to measuring social distress, including the percentage of female-headed households, incidence of crime, and dependency.

### Percentage of Households Headed by a Female

In our 1980 report, we suggested the use of female heads of households as a potential UDAG distress measure. As a result, the 1981 Urban Institute study examined the possibility of using the percentage of female-headed households as part of the UDAG criteria. The study found that substituting this measure for poverty in determining eligibility resulted in some regional changes in the cities that would be eligible. A slightly greater percentage of cities in the northeast became eligible, but fewer cities were eligible in the south. The number of cities qualifying for UDAG in the north central and western regions remained about the same. In HUD's 1979 report City Need and Community Development Funding, the percentage of households headed by a female was associated with neighborhood instability. Data on such household characteristics are available from the American Housing Survey (formerly the Annual Housing Survey). However, a Census official told us that data from the American Housing Survey are currently available for only 44 metropolitan areas selected by HUD.

### Crime Rate

In our 1980 report, we also suggested using the crime rate as a UDAG distress measure. The data are available on an annual basis from Department of Justice Uniform Crime Reports for the United States. The 1981 Urban Institute study found, however, that the inclusion of crime rates would not result in significant shifts in UDAG eligibility. For example, by substituting an index of crime for the rate of unemployment, fewer cities in the northeast become eligible for the program. However, the number of distressed cities in the north central region would increase slightly. The south and west would remain nearly unchanged. Furthermore, HUD's 1979 study, City Need and Community Development Funding, found that the crime data, with the exception of homicides, may not be comparable from city to city.

### Dependency

The Center for Urban Policy Research found that the number of people on welfare and per-capita welfare payments provide good comparative indicators of the concentration of dependent populations in a city and patterns across cities. However, the Urban Institute study found no significant shifts in UDAG eligibility by adding such a measure of dependency.

## Others

The 1984 Center for Urban Policy Research study offered a number of other possible measures of social distress. According to its report, income levels are the single most significant measure of social need. The study asserts that health conditions, illiteracy rates, and crime rates are manifestations of low-income levels. Household income, in particular, reflects the size and strengths of local purchasing power, a factor bearing directly on the health of consumer-oriented industries.

## Physical Distress Measures

Through our review of the literature and discussions with agency officials, we identified a number of possible alternatives to measuring physical distress. Among these are: the age of rental housing, overcrowding, and condition of housing.

### Age of Rental Housing

In our 1980 report, we stated that the age of rental housing more accurately captures poor housing and neighborhoods than the age of housing alone and recommended that HUD test this alternative measure. Data on the age of rental housing are available from the Bureau of Census' American Housing Survey. HUD studies concurred, stating that age of rental housing is a characteristic of inner-city neighborhoods with the greatest amount of substandard housing and housing abandonment. According to HUD's 1983 study, Effects of the 1980 Census on Community Development Funding, for central cities, pre-1940 units held by renters typically have twice the rate of problems as pre-1940 units held by homeowners. The same relationship holds true in the suburbs. Furthermore, using the age of rental housing rather than the age of housing decreases the likelihood that older, wealthier communities receive eligibility points. HUD also found that regardless of age, renter-occupied housing has a greater incidence of housing and neighborhood deficiencies than owner-occupied housing. A Census Bureau official, however, told us that the error rate would be higher for pre-1940 rental housing because most multifamily housing is rental housing and there is a higher error rate for the year built on multifamily housing than on single-family housing.

### Overcrowding

In our 1980 study, we stated that HUD considered overcrowding[31] as a measure of housing distress in establishing UDAG distress measures. It was rejected, however, because it is more a measure of how a unit is

[31]HUD defines overcrowded housing as any occupied housing with 1.01 or more persons per room.

used rather than its condition. Two HUD studies[32] considered overcrowding as an indicator of housing distress. According to a 1979 HUD study, overcrowding indicates an intensive use of neighborhood and housing facilities. According to that study, overcrowding is highly associated with housing and neighborhood problems. Further, that association is stronger when overcrowded units are also aged, rental, or occupied by low-income households. However, in its 1983 study, HUD asserted that overcrowding is not a very consistent predictor of housing and neighborhood problems because there are demographic groups and cities that have housing and neighborhood problems but low rates of overcrowding and others with relatively few problems and high rates of overcrowding.

## Condition of Housing

HUD also considered measuring physical distress by the condition of housing. This information is available for 44 metropolitan areas from the Census Bureau's American Housing Survey. The Center for Urban Policy Research reports that the American Housing Survey interviewee responses on unit characteristics such as interior masonry, inoperative plumbing or heating, and signs of vermin were highly correlated with the true condition of the unit/building. According to our 1980 report, however, internal HUD comments on draft regulations stated that communities may use different standards for assessing the condition of housing, which could lead to problems of comparability. A Census Bureau official told us that no widely accepted definition for substandard housing is used. In addition, a 1983 HUD study stated that Census Bureau data on substandard housing fail to recognize many housing code deficiencies, including interior rooms, inadequate room size, certain fire hazards, and insufficient light and air. In addition, data are not available for all cities on such things as the relative extent of garbage-littered streets, cracked and broken sidewalks, unpaved or broken streets, missing or ineffective street lights, inadequate sewage and drainage facilities, and the danger of crime.

[32]Harold L. Bunce, and Robert L. Goldberg, City Need and Community Development Funding, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, Division of Evaluation, Jan. 1979; and Harold L. Bunce, Sue G. Neal, and John L. Gardner, Effects of the 1980 Census on Community Development Funding, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, Community Development and Fair Housing Analysis Division, July 1983.

# Economic Results of Completed UDAG Projects

This appendix describes the economic results in terms of private investment, jobs, local taxes, and housing units associated with completed UDAG projects; the degree to which UDAG projects provided expected benefits; and the relationship between expected benefits and the economic distress level of a city.

In brief, we found that, in total, completed UDAG projects, as of November 1988, reported that they exceeded the expected amount of private investment, came close to the expected number of permanent jobs and housing units, but fell short of the expected amount of local taxes.[1] On an individual project basis, many completed projects for which data were available reported lower private investment, jobs, local taxes, housing units, and loan repayments than was expected of them. Further, in 1988, projects from the most economically distressed cities generally promised lower economic results (in terms of private investment and local tax revenue per UDAG dollar, and UDAG dollars per job) than projects from the least economically distressed cities. Because project selection in the past was based primarily on economic distress factors and not project factors, selected projects may not have provided the maximum private investment, jobs, and local taxes possible. Selected projects, however, would provide economic benefits in the most distressed cities, which the UDAG program was intended to benefit. However, we did not assess whether investment, jobs, and other benefits represent net gains to a community or are simply shifted from one business or area to another, and whether the relative degree of any net gain in benefits varies with a city's level of distress.

## Reported Results of UDAG Program

The first UDAG awards were made in April 1978. Since then, HUD has awarded 2,947 grants[2] totaling over $4.6 billion. Of these, 1,282, or 44 percent, were completed as of November 1988. Grantees reported about $1.4 billion in UDAG funds expended for all but 25 completed projects. Other public funds reported by the grantees totaled about $1.1 billion for completed projects.[3] Of the 1,282 completed projects, 505 were industrial projects, 476 were commercial projects, and 301 were neighborhood projects. There were 636 completed projects in large cities, and

[1]Completed projects are those for which, in general, all responsibilities and requirements under the grant agreement and applicable laws and regulations have been carried out satisfactorily. There were 1,282 completed UDAG projects as of November 1988.

[2]Does not include 27 projects which received preliminary approval in September 1988, and 633 projects which have been canceled or terminated.

[3]Other public funds include other federal funds, and funds from state and local governments.

646 in small cities. HUD data indicate that these projects have reported economic benefits of $10.6 billion in private investment, 177,887 permanent jobs, about $119 million in annual local tax revenues, and 29,818 new or rehabilitated housing units.[4] (See table II.1.)

Certain inherent evaluation problems make an assessment of the UDAG program's impact difficult. For example, one of the program's main aims is to create new permanent jobs, but it can be very difficult to determine whether jobs created by UDAG projects actually represent a net increase in employment or whether employment is to some extent simply being shifted from one business or area to another. Similar difficulties arise in trying to assess the extent to which a project has genuinely brought about private investment that would not otherwise have been made in the distressed community. The Congress recognized this issue in December 1979 and passed a legislative amendment requiring the Secretary of HUD to condition grant awards on the Secretary's determination that there was a strong probability that (1) the nonfederal investment would not be made without UDAG funds and (2) the UDAG funds were not merely substituting for other available funds.

**Table II.1: Reported Economic Results of Completed UDAG Projects[a]**

| | UDAG funds expended (millions) | Other public funds expended (millions) | Private investment (millions) | Permanent jobs | Annual local taxes (thousands) | New housing units | Rehab. housing units |
|---|---|---|---|---|---|---|---|
| Total for all projects with data | $1,394.97 | $1,064.93 | $10,550.00 | 177,887 | $118,535.46 | 13,054 | 16,764 |
| Median for projects with data | 0.51 | 0.30 | 2.76 | 65 | 27.00 | 56 | 38 |
| Projects with data (number) | 1,257 | 629 | 1,263 | 1,152 | 928 | 148 | 95 |

[a]The percentage of completed projects for which data were available was 98.05 for UDAG funds expended, 49.06 for other public funds expended, 98.52 for private investment, 89.86 for new permanent jobs, 72.39 for annual tax increase, 11.54 for new housing units, and 7.41 percent for rehabilitated housing units.

[4]Reported data were not complete for some projects. See note at table II.1 for the number of completed projects for which data were complete for each measure of economic results.

## Comparison of Expected and Reported Economic Results

Where information on both expected and reported economic benefits was available,[5] completed projects reported a total of $10.6 billion in private investment, 174,144 permanent jobs, $111 million in local taxes, and 28,052 housing units. These figures represent 122 percent, 89 percent, 69 percent, and 95 percent of the private investment, permanent jobs, local taxes, and housing units, expected of those projects, respectively.[6] (See table II.2.)

**Table II.2: Total Expected and Reported Economic Results of Completed UDAG Projects[a]**

| | UDAG investment (billion) | Other public investment (billion) | Private investment (billion) | Permanent jobs | Annual taxes (million) | Housing units |
|---|---|---|---|---|---|---|
| Total expected | $1.45 | $0.71 | $8.68 | 196,464 | $161.07 | 29,506 |
| Total reported | 1.39 | 0.78 | 10.55 | 174,144 | 111.36 | 28,052 |
| Percentage of expectation that is reported | 96.19 | 110.34 | 121.53 | 88.64 | 69.14 | 95.07 |

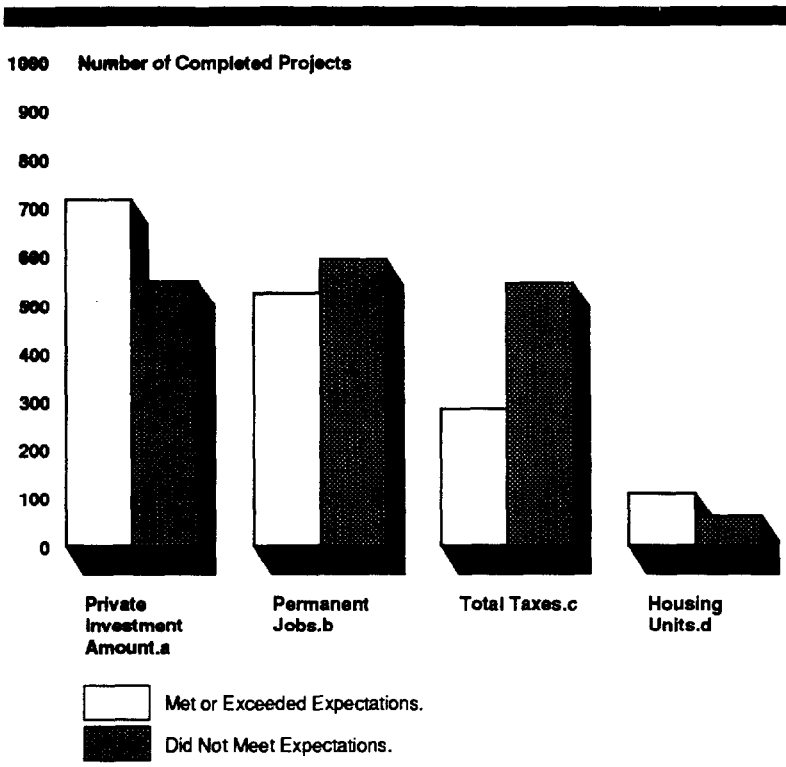
[a]Includes only completed projects for which data on both expected and reported results were available.

Similarly, on an individual project basis, many completed UDAG projects reported that they did not meet the expected amount of private investment, number of permanent jobs, amount of local tax revenues, and number of housing units. Of the 1,263 completed projects for which data on both expected and reported private investment were complete, 548 projects, or about 43 percent, reported lower private investment than expected. Similarly, 592 projects, or 53 percent of those projects with complete jobs data, reported fewer permanent jobs than was expected. Also, 545 projects, or about 66 percent of those projects with complete local tax data, reported less local tax revenues than was expected. Of the 168 completed neighborhood projects for which we had complete housing data, 60, or 36 percent, reported fewer housing units than was expected. The percentage of projects that reportedly met or did not meet these expected economic benefits are shown in figure II.1.

[5]The reported values presented in this section differ from those presented earlier because we only included projects for which both expected and reported data were available.

[6]Project expectations may change after the application has been approved.

**Figure II.1: Number of Completed Projects That Reportedly Met or Did Not Meet Expectations**




[a]There were 1,263 completed projects for which we had complete private investment data.

[b]There were 1,116 completed projects for which we had complete jobs data.

[c]There were 828 completed projects for which we had complete tax data.

[d]We had complete housing data on 168 of the 301 completed neighborhood projects.

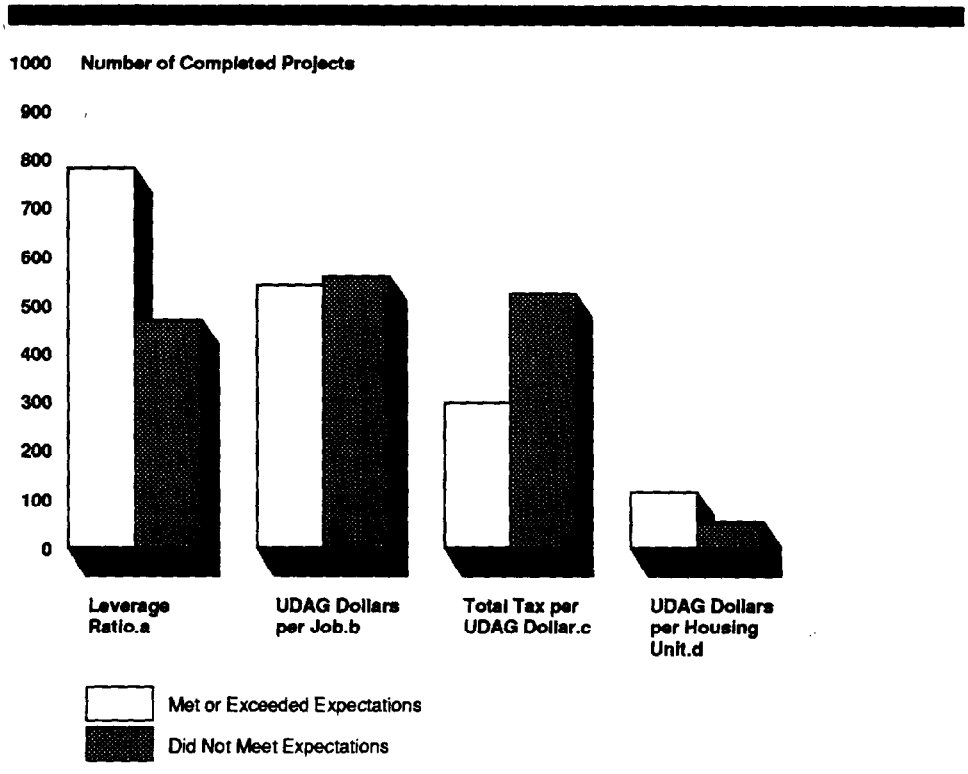
In selecting UDAG projects, HUD assigns project points on the basis of expected economic benefits. The measures HUD uses include the leverage ratio,[7] UDAG investment per permanent job, and local revenues per UDAG dollar.[8] As with the economic benefits discussed above, many projects did not meet the expected benefits as measured by ratios HUD uses in its selection system and by the ratio of UDAG dollars per housing unit. That is, where complete leverage ratio data were available, 467 projects, or about 37 percent, reported that they did not meet the expected leverage ratio. Further, 558 projects, or about 51 percent of projects with com-

[7]The leverage ratio measures the private investment attracted by UDAG dollars. This is calculated by dividing UDAG dollars into the private investment amount.

[8]These measures of economic benefits do not take into account other public funds that may be required to attract private investment and the associated new permanent jobs and tax increase for particular projects.

plete data on UDAG dollars per job, needed more UDAG funds than was expected for each permanent job; and 52 of the 166 completed neighborhood projects with expected and reported housing data, or about 31 percent, reported that they needed more UDAG funds than was expected for each housing unit. Further, 523 projects, or about 64 percent of completed projects with complete data on local taxes per UDAG dollar, reported falling short of the expected local tax revenue per UDAG dollar. (See fig. II.2.) Each measure of economic benefit is discussed in greater detail below.

**Figure II.2: Number of Completed Projects That Reportedly Met or Did Not Meet Project Results Ratios**




[a]There were 1,247 completed projects for which we had complete leverage ratio data.

[b]There were 1,098 completed projects for which we had complete job cost data.

[c]There were 818 completed projects for which we had complete data on taxes per UDAG dollar.

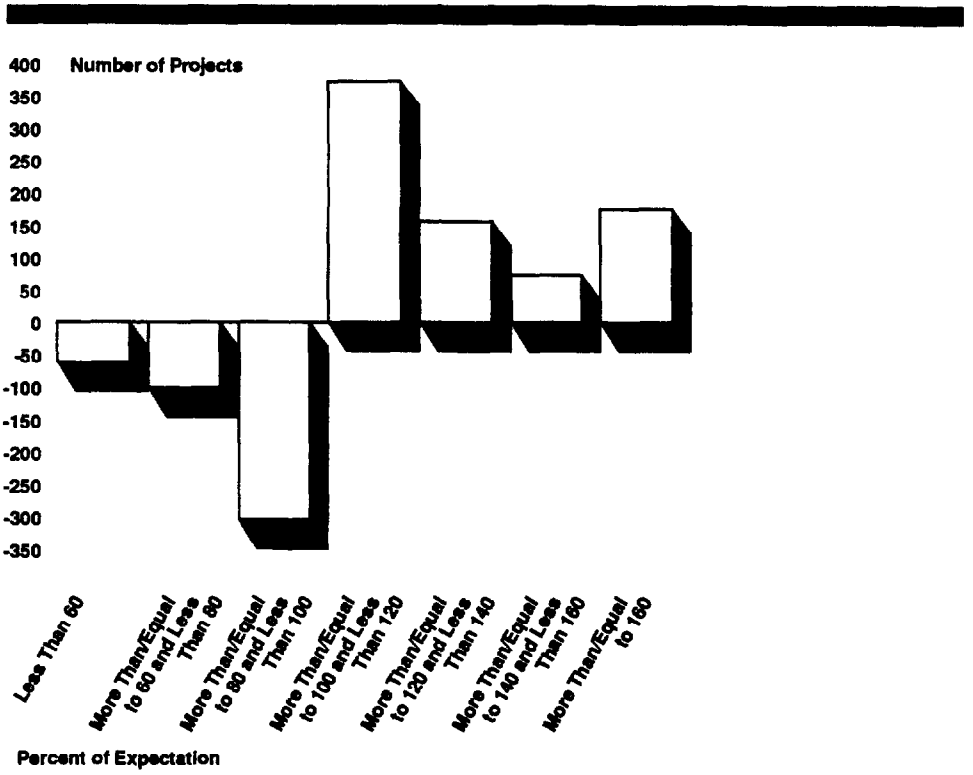
[d]We had complete data on UDAG dollars per housing unit for 166 of the 301 completed neighborhood projects.

## Private Investment

In determining whether to award a UDAG grant, HUD assigns up to 10 project points on the basis of the expected amount of private investment attracted by each UDAG dollar. Beginning in 1981, HUD required a minimum of $2.50 of private investment for every UDAG dollar requested. We found that the median leverage ratio expected of and reported for completed UDAG projects was $4.16 and $4.67, respectively.

On an individual project basis, most completed projects reported a leverage ratio greater than or equal to that expected of them. That is, 780, or 63 percent, of the completed projects with comparable data reported leverage ratios that were equal to or exceeded that expected. Over half of the completed projects either came within 20 percent of meeting, or exceeded by no more than 20 percent, the expected leverage ratio. Figure II.3 shows the extent to which projects reportedly met their expected leverage ratio.

**Figure II.3: Extent to Which Individual Completed Projects Reportedly Met Expected Leverage Ratios[a,b]**

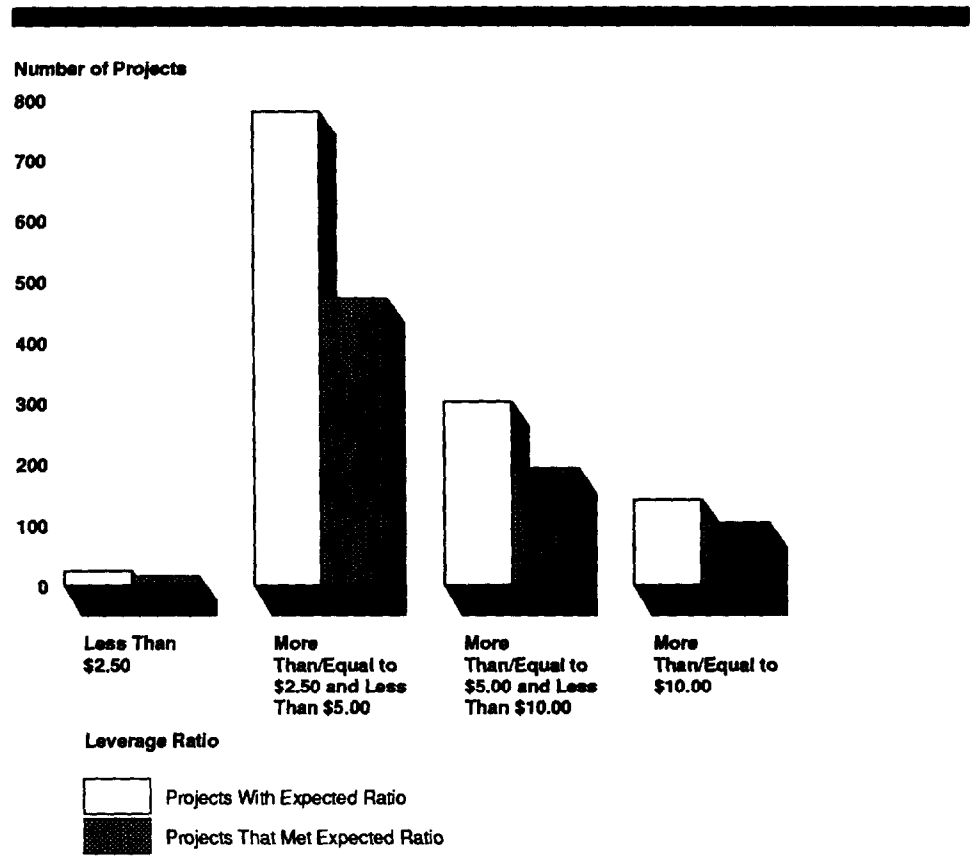



[a]There were 1,247 completed projects for which we had complete leverage ratio data.

[b]Projects that met or exceeded expectations are shown above the zero level, projects that did not meet expectations are shown below the zero level.

The most frequently expected leverage ratio was between $2.50 and $5.00. Of the 780 completed projects that expected a ratio within that range, 471, or 60 percent, reported a leverage ratio that met or exceeded the expected ratio. Proportionately more completed projects met or exceeded expectations in the remaining ranges shown in figure II.4. Projects that expected a leverage ratio greater than or equal to $10.00 had the highest percentage of projects for which reported results were greater than or equal to that expected. That is, of the 142 completed projects that expected a leverage ratio of more than or equal to $10.00, 102, or 72 percent, reported a leverage ratio that was equal to or higher than expected. Figure II.4 shows the frequency distribution of expected leverage ratios, and the number of projects within each range that met or exceeded that expected ratio.

**Figure II.4: Distribution of Completed Projects That Reported Meeting Expected Leverage Ratios[a,b]**




[a]There were 1,247 completed projects for which we had complete leverage ratio data.

[b]Three of the 23 projects with an expected leverage ratio below $2.50 were approved after HUD required a minimum leverage ratio of $2.50.

## Jobs

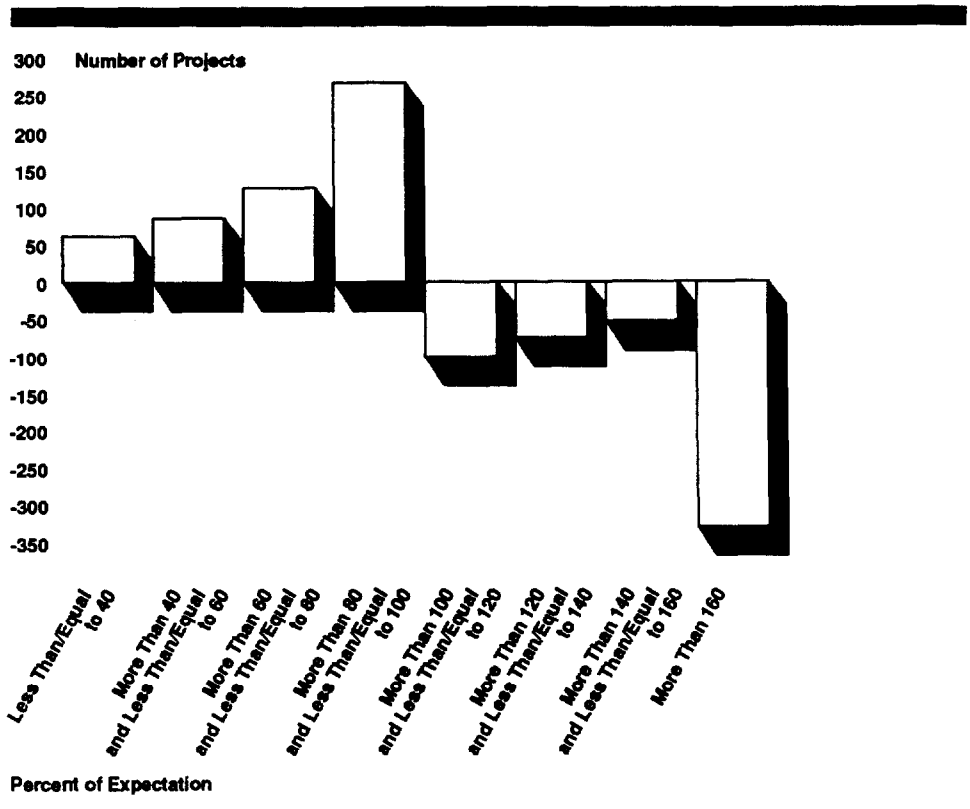
HUD assigns up to six project selection points[9] on the basis of the efficiency of UDAG funds in creating permanent jobs. HUD also assigns up to two project points for the expected number of permanent jobs created by a project, and it may assign up to four additional project points on the basis of the type of new permanent and other jobs created.

Completed projects expected to require a median of about $6,667 in UDAG funds to create a permanent job, with over 70 percent of completed projects expecting to require between $1,000 and $10,000 in UDAG funds to create a job. Grantees reported a median of $7,649 of UDAG funds for each permanent job associated with completed projects.

Not only did completed projects report requiring more UDAG funds to create a permanent job on a median basis, but about half of the completed projects for which job cost data were available reported more UDAG funds than expected for each job. That is, on a project-by-project basis, 558 projects, or 51 percent of the 1,098 projects with complete job cost data, reported more UDAG funding per job than was expected. (See fig. II.5.)

[9]UDAG project selection points changed in fiscal year 1989; consequently, the points shown here and in subsequent sections may not be the same as those shown in table I.3, appendix I.

**Figure II.5: Extent to Which Individual Completed Projects Reportedly Met Expected Ratio of UDAG Dollars per Job[a,b]**

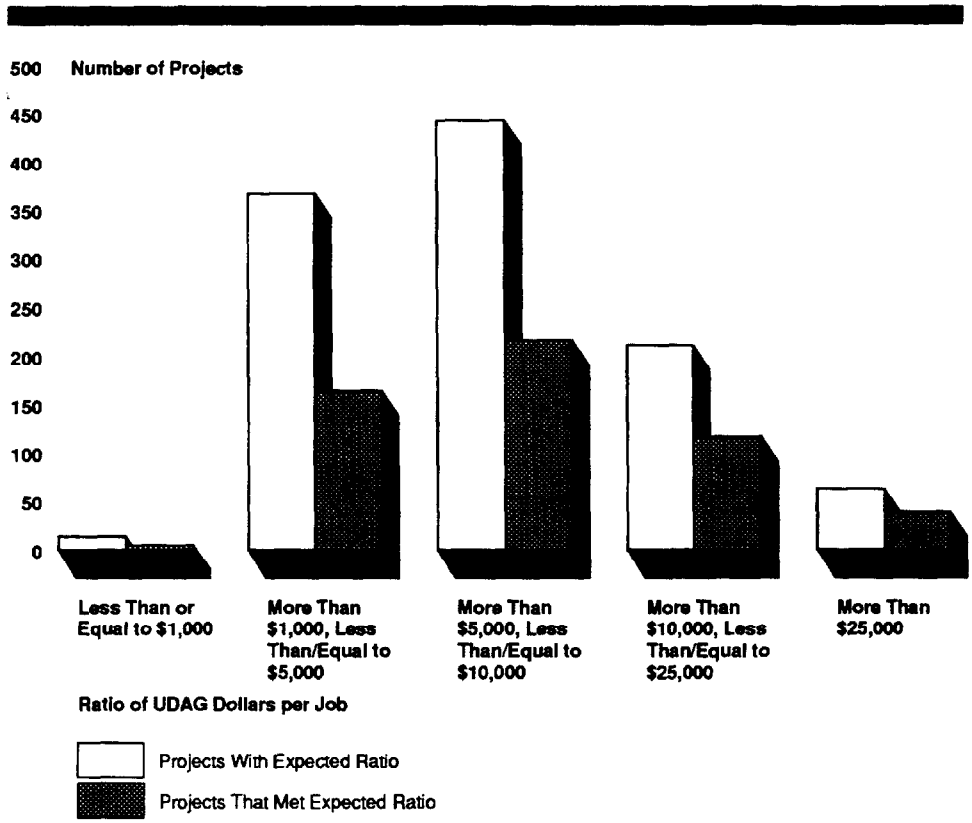



[a]There were 1,098 completed projects for which we had complete data on UDAG dollars per job.

[b]Projects that required the same or less UDAG funds per job than expected are shown above the zero level, projects that required more funding per job are shown below the zero level.

While about half of all completed projects for which we had complete job cost data reportedly required the same or less UDAG funds than was expected, the higher the amount of UDAG funds expected to be needed per job, the more likely a project was of meeting that expectation. For example, of the 14 projects that expected UDAG funds of $1,000 or less for each job, 5 (or 36 percent) reported less UDAG funds per job than was expected. Conversely, of the 63 completed projects that expected each job to require more than $25,000 in UDAG funds, 39 (or over 60 percent) reported less funds than was expected. (See fig. II.6.)

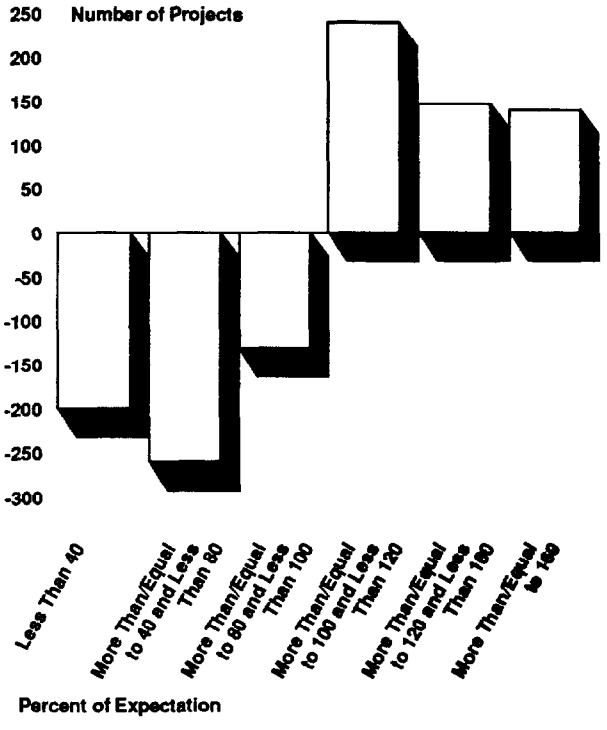
**Figure II.6: Distribution of Completed Projects That Reported Meeting Expected Ratio of UDAG Dollars per Job[a]**




[a]There were 1,098 completed projects for which we had complete data on UDAG dollars per job.

One reason for the difference between the expected and reported ratio of UDAG dollars per job is that there are differences in the number of new permanent jobs expected and reported. On a median basis, completed projects expected 85 new permanent jobs. However, grantees reported a median of 67 new permanent jobs for completed projects. On an individual project basis, we found that of the 1,116 completed projects for which we had complete jobs data, 592 projects, or 53 percent, reported fewer new permanent jobs than was expected. (See fig. II.7.)

**Figure II.7: Extent to Which Individual Completed Projects Reportedly Met the Expected Number of Permanent Jobs[a,b]**

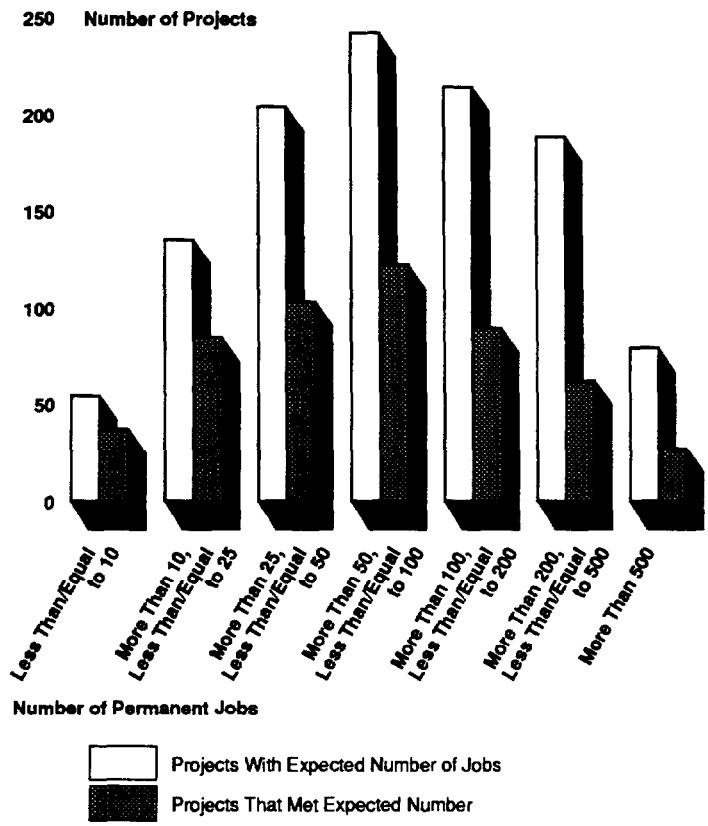



[a]There were 1,116 completed projects for which we had complete job data.

[b]Projects that met or exceeded expectations are shown above the zero level, projects that did not meet expectations are shown below the zero level.

Typically, the more jobs a project expected, the less likely it was to have reported meeting that expectation. For example, 37 (or 69 percent) of the 54 projects that expected to create 10 or fewer jobs met or exceeded that expectation. Conversely, only 33 percent of the projects that expected to create more than 200 jobs reported jobs in that range. (See fig. II.8.)

**Figure II.8: Distribution of Completed Projects That Reported Meeting Expected Number of Permanent Jobs[a]**




[a]There were 1,116 completed projects for which we had complete job data.

The lower number of jobs reported may be due to limitations of the data. HUD officials told us that once a project is completed, not all jobs may be filled. HUD officials also told us that older projects frequently had inflated job estimates, but that HUD now reviews those estimates more closely.

With regard to the types of jobs created, completed projects, in total, reported more construction and minority jobs than was expected of them. With the exception of retained jobs and construction jobs, the median number of jobs reported by grantees was lower than that expected for each type of job. (See table II.3.)

**Table II.3: Median Expected and Reported Jobs for Completed Projects**

| | Expected | | Reported | | Projects with complete data[a] |
|---|---|---|---|---|---|
| | Total | Median | Total | Median | |
| Permanent jobs | 196,464 | 85 | 174,144 | 67 | 87.05 |
| Construction jobs | 147,783 | 55 | 191,814 | 70 | 82.14 |
| Low/moderate-income new permanent jobs | 106,792 | 51 | 99,879 | 44 | 75.35 |
| Minority jobs | 26,817 | 20 | 31,213 | 18 | 42.04 |
| CETA[b] jobs | 15,936 | 23 | 12,569 | 15 | 25.35[c] |
| Retained jobs | 29,961 | 90 | 27,570 | 106 | 8.03[c] |

[a]Shows the percentage of completed projects for which needed data were available.

[b]Comprehensive Employment and Training Act.

[c]Few projects had complete information for these categories. It is likely, however, that many projects would not expect such categories of jobs.

## Tax Revenues Generated by UDAG Projects

HUD may assign 1 project selection point on the basis of the expected tax benefits per UDAG dollar.[10] Completed projects expected a median of $0.09 in annual local taxes for each UDAG dollar.[11] The reported median, however, was $0.05.

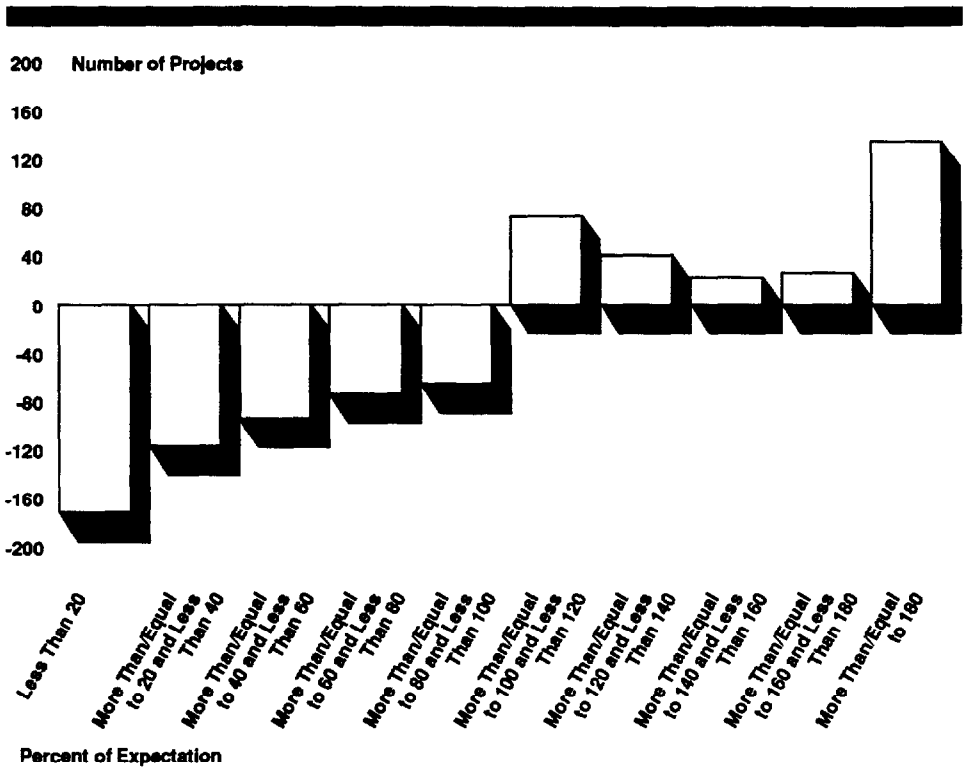
On an individual project basis, most completed projects reported less tax benefits per UDAG dollar than was expected of them. Of the 818 completed projects for which we had tax data, 523 (or 64 percent) reported that they fell short of the expected increase in local taxes per UDAG dollar.[12] Figure II.9 shows the extent to which projects reportedly met their expected ratio of local taxes per UDAG dollar.

[10]For purposes of this report, taxes include property tax, other tax, and payments in lieu of taxes. Tax data for many projects were incomplete. Also, see preceding footnote regarding changes for fiscal year 1989.

[11]For the expected and reported taxes per UDAG dollar, complete data were available for 818, or 64 percent, of all completed projects.

[12]The data for local revenues may not be reliable. HUD officials note that grantees often report annual increases from the previous year, rather than total annual increases. These officials note that instructions on the semiannual progress reports are confusing to grantees.

**Figure II.9: Extent to Which Completed Projects Reportedly Met Expected Ratios of Total Taxes per UDAG Dollar[a,b]**

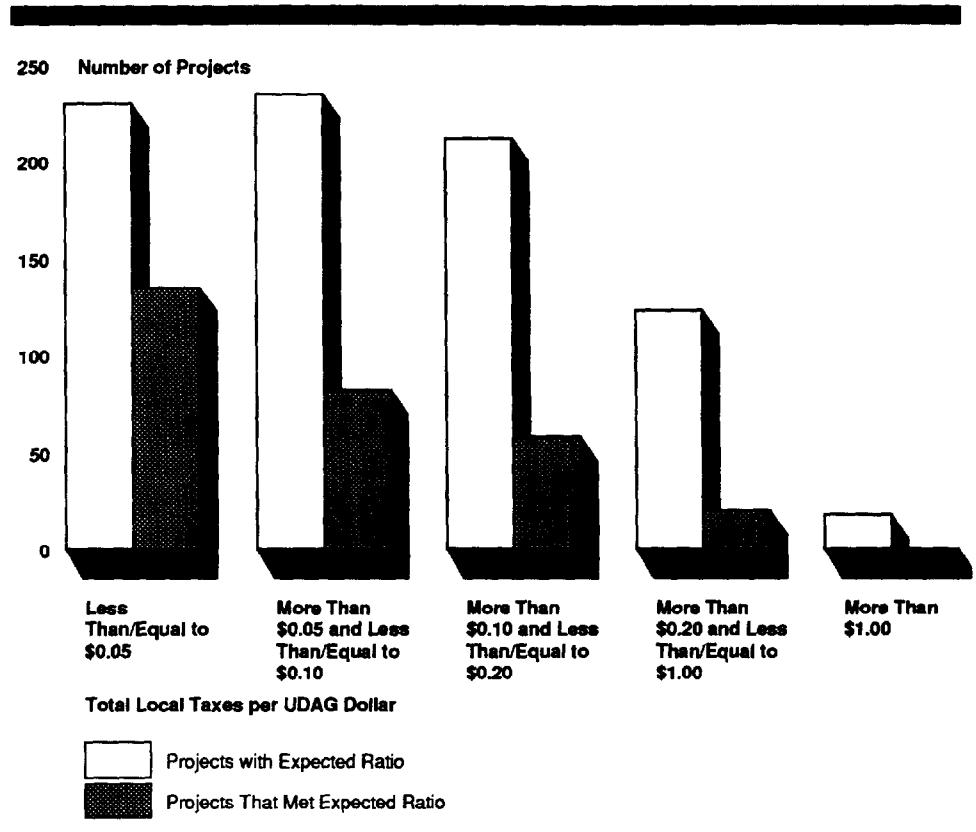



[a]There were 818 completed projects for which we had complete data on total taxes per UDAG dollar.

[b]Projects that met or exceeded expectations are shown above the zero level, projects that did not meet expectations are shown below the zero level.

Most completed projects expected an increase in local taxes of $0.20 per UDAG dollar, or less. That is, 677 completed projects, or 83 percent of those with complete tax data, expected a tax ratio in that range. The higher the expected increase in local taxes per UDAG dollar, the more likely a project was of falling short of that expectation. Figure II.10 shows the frequency distribution of expected tax ratios, and the number of projects within each range that met or exceeded that expected ratio.

**Figure II.10: Distribution of Completed Projects That Reported Meeting Expected Ratio of Total Taxes per UDAG Dollar[a]**




[a]There were 818 completed projects for which we had complete data on total taxes per UDAG dollar.

## Housing Units Constructed by UDAG Projects

UDAG funds may be used for industrial, commercial, and neighborhood development projects. A specific UDAG project may encompass all three activities. Further, HUD has stated that neighborhood projects are often a mix of housing and commercial development, although they could represent housing development only. The original legislation required that the Secretary allocate the amounts available for grants in a manner which achieves a reasonable balance between programs that are designed primarily (1) to restore seriously deteriorated neighborhoods, (2) to reclaim for industrial purposes underutilized real property, and (3) to renew commercial employment centers. The Housing and Urban-Rural Recovery Act of 1983, however, changed this requirement. It stated that in providing UDAG assistance, HUD may not discriminate on the basis of the particular type of activity involved, whether such activity is primarily an industrial, commercial, or neighborhood activity.

Housing projects provide fewer direct economic development benefits than commercial or industrial projects, according to a January 1982 HUD evaluation of the UDAG program. This evaluation stated, however, that housing projects may have substantial secondary impacts. Housing is not currently used in the calculation of project points.

In total, completed neighborhood projects for which we had data reported about the same number of housing units as was expected of them. Grantees reported more new housing units and low- and moderate-income housing units than was expected. On a median basis, we found that the median expected and reported number of total housing units and new housing units were about the same. For example, for the 168 completed neighborhood projects for which needed data were complete, the expected and reported number of total housing units were 65 and 62, respectively. However, on a median basis, grantees reported many fewer rehabilitated housing units and low- and moderate-income housing units than were expected of them. For example, the median expected and reported low- and moderate-income housing units were 40 and 30, respectively. (See table II.4.)

**Table II.4: Expected and Reported Housing Units for Completed Neighborhood Projects**

| | Expected | | Reported | | Projects with complete data[a] |
|---|---|---|---|---|---|
| | Total | Median | Total | Median | |
| Total housing | 27,622 | 65 | 25,965 | 62 | 55.81 |
| New housing | 9,658 | 64 | 9,837 | 63 | 33.55 |
| Rehabilitated housing | 16,144 | 57 | 14,241 | 39 | 21.26 |
| Low/moderate-income housing | 7,817 | 40 | 8,448 | 30 | 25.58 |

[a]Shows the percentage of completed neighborhood projects for which needed data were complete.

Most completed neighborhood projects constructed or rehabilitated more housing units than were expected of them. One hundred eight completed neighborhood projects, or about 64 percent, met or exceeded the expected number of total housing units. Eighty, or about 48 percent, provided up to 20 percent more housing units than were expected. (See table II.5.)

**Table II.5: Extent to Which Individual Completed Neighborhood Projects Reportedly Met Housing Expectations**

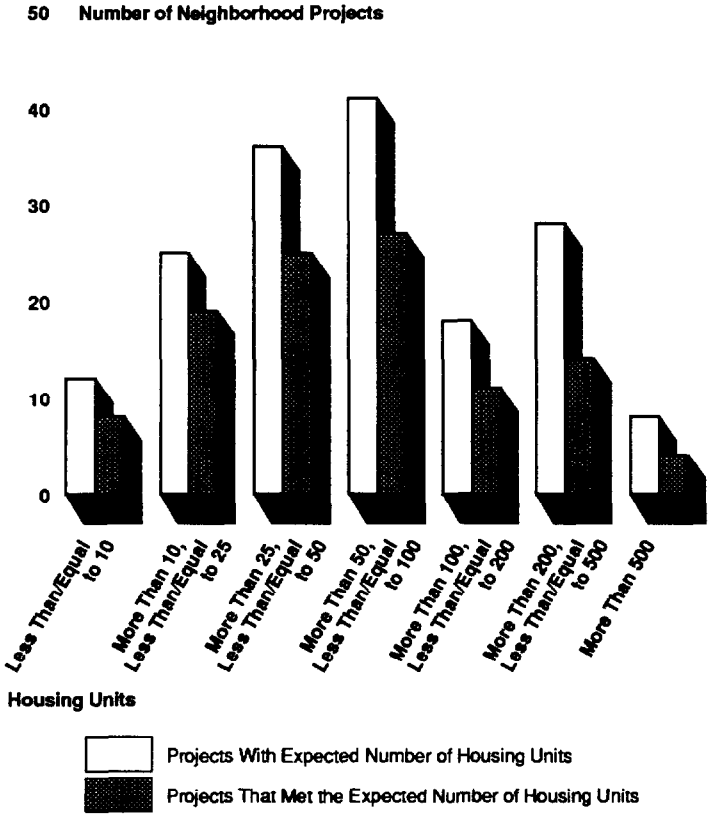
Figures in percent

| | Met or exceeded expectation | Did not meet expectation | Projects with complete data[a] |
|---|---|---|---|
| Total housing | 64.3 | 35.7 | 55.81 |
| New housing | 65.3 | 34.7 | 33.55 |
| Rehabilitated housing | 54.7 | 45.3 | 21.26 |
| Low/moderate-income housing | 59.7 | 40.3 | 25.58 |

[a]Shows the percentage of completed neighborhood projects for which needed data were complete.

With regard to total housing units, the typical number of units per project varied widely, with 41, or about 24 percent of completed neighborhood projects for which we had complete housing unit data, expecting to build and/or rehabilitate between 50 and 100 housing units. Completed neighborhood projects that expected a higher number of total housing units generally were less successful than those that expected a lower number of total housing units. (See fig. II.11.)

**Figure II.11: Distribution of Completed Neighborhood Projects That Reported Meeting Expected Total Housing Units[a]**

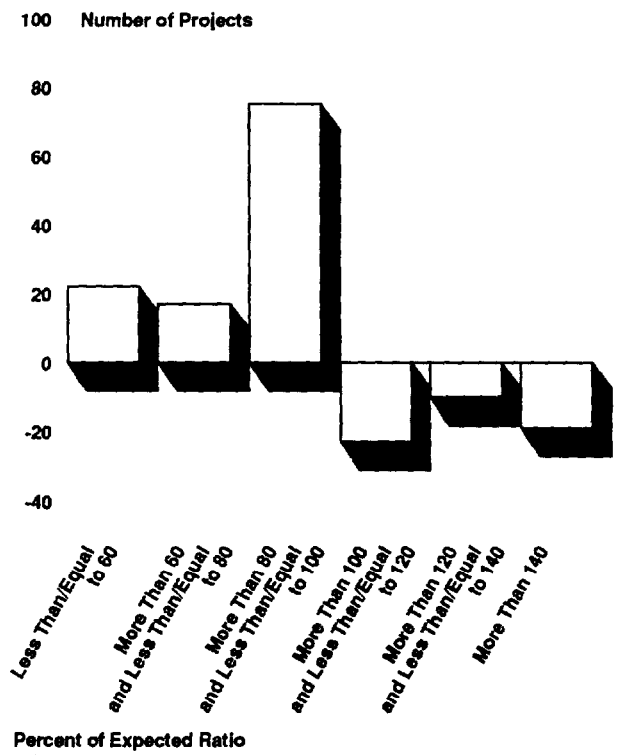



[a]We had complete housing unit data for 168 of the 301 completed neighborhood projects.

On a median basis, completed neighborhood projects required less UDAG funds per housing unit than were expected. The reported UDAG dollars per housing unit were slightly less than that expected for completed neighborhood projects with comparable data. The median expected and reported UDAG funds associated with each housing unit were $9,678 and $9,138, respectively. Sixty-eight, or about 41 percent, of the completed neighborhood projects with complete housing cost data expected to need between $10,000 and $25,000 in UDAG funds per housing unit.

Many projects required less UDAG funds per housing unit than expected. One hundred fourteen, or about 69 percent, of the completed neighborhood projects that had complete housing cost data reported the same or less UDAG dollars per house than were expected. (See fig. II.12.)

**Figure II.12: Extent to Which Individual Completed Neighborhood Projects Reportedly Met Expected Ratio of UDAG Dollars per Housing Unit[a,b]**

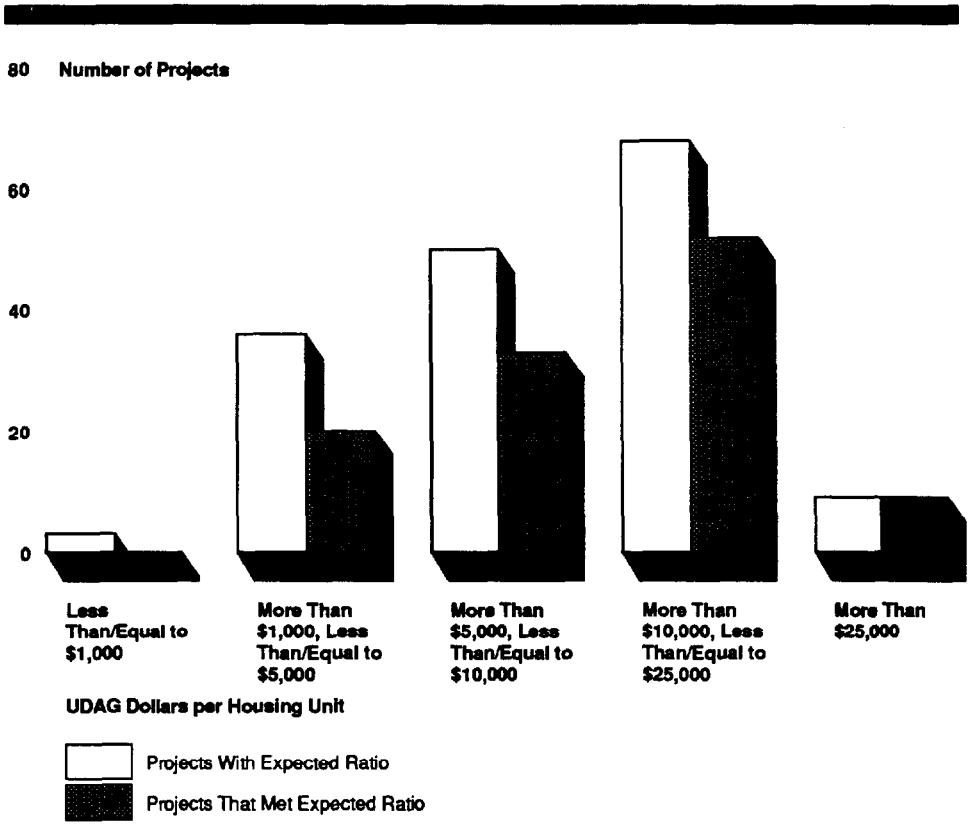



[a]We had complete data on UDAG dollars per housing unit for 166 of the 301 completed neighborhood projects.

[b]Projects that required the same or less UDAG dollars per housing unit than was expected of them are shown above the zero level, projects that required more UDAG funds than was expected are shown below the zero level.

Typically, the more UDAG funds expected per housing unit, the more likely a neighborhood project was to have reported meeting that expectation. None of the completed neighborhood projects that expected to require $1,000 or less in UDAG funds per housing unit met that expectation. Conversely, all of the completed neighborhood projects that expected to require more than $25,000 in UDAG funds reported UDAG funds that were equal to or less than that expected. (See fig. II.13.)

**Figure II.13: Distribution of Completed Neighborhood Projects That Reported Meeting Expected Ratio of UDAG Dollars per Housing Unit[a]**




[a]We had complete data on UDAG dollars per housing unit for 166 of the 301 completed neighborhood projects.

## Other Economic Benefits

In general, UDAG funds are awarded to an economically distressed community, which lends the funds to a private developer. The developer, in turn, repays those funds to the city, which may use them for economic development projects.[13] HUD officials point to these repayments as another economic benefit of UDAG projects. They also note that UDAG projects may result in "spin-off" economic development near the project site. We did not assess these spin-off activities. We did, however, calculate the expected and reported payback of UDAG funds from the developer to the city.

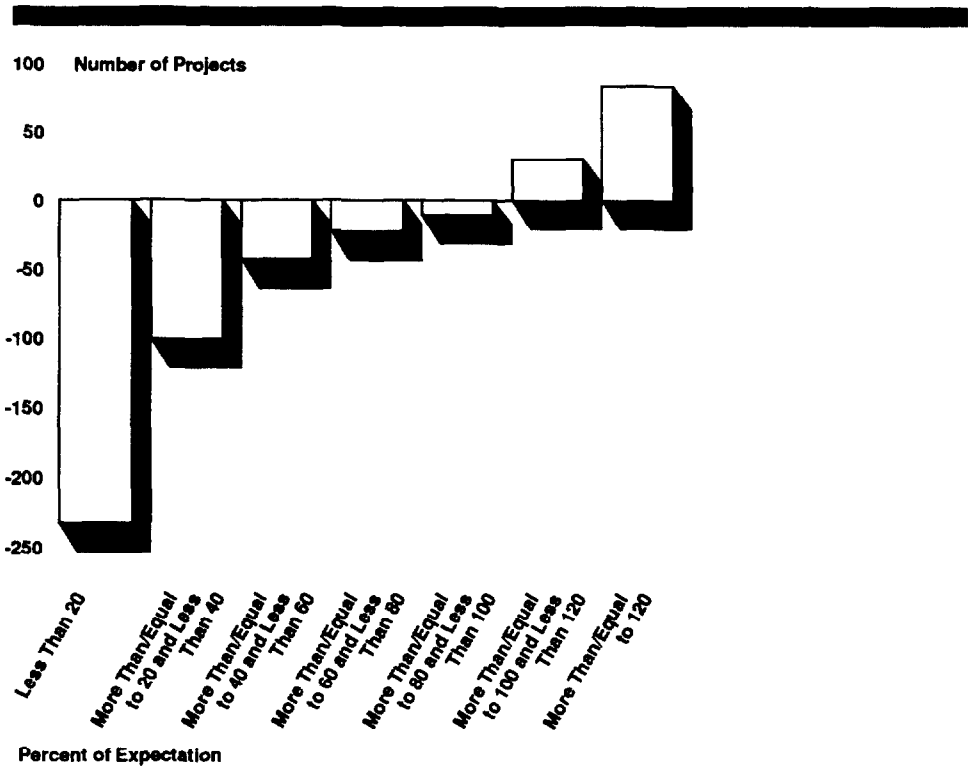
[13]These loans typically carry below-market rates of interest and are usually secured by second mortgages on the project's real property.

In total, the 525 completed UDAG projects for which we had repayment data expected $381 million in repayments. Those projects, however, reported a total of $146 million in repayments as of November 1988. On a median basis, we found that completed UDAG projects expected $382,757 in repayments and reported $85,000 in repayments to date.[14] The expected amount of repayments per project varied widely, with the highest amount of expected repayment being over $16 million. Four hundred nineteen, or about 80 percent, of the completed projects for which we had data expected repayments in excess of $100,000.

Most completed projects report less repayment than were expected. Of the 525 completed projects with comparable data, 411 (or about 78 percent) report less repayment than was expected. Two hundred thirty-three such projects, or about 44 percent, reported repayments of less than 20 percent of that expected. (See fig. II.14.) This difference in expected and reported repayments may be due to the terms of the loans to the developers because these loans may not have matured for some projects as of November 1988. Also, HUD officials told us that they have some evidence that repayments and tax data are underreported by a considerable degree. They are currently conducting a study of repayments and taxes paid which, they believe, should correct these data.

[14]Expected and reported data on repayments were available on 525 completed projects, or about 41 percent of all completed projects. HUD data indicate that 923 completed projects involve repayment.

**Figure II.14: Extent to Which Individual Completed Projects Reportedly Met Expected Amount of Repayments[a,b]**

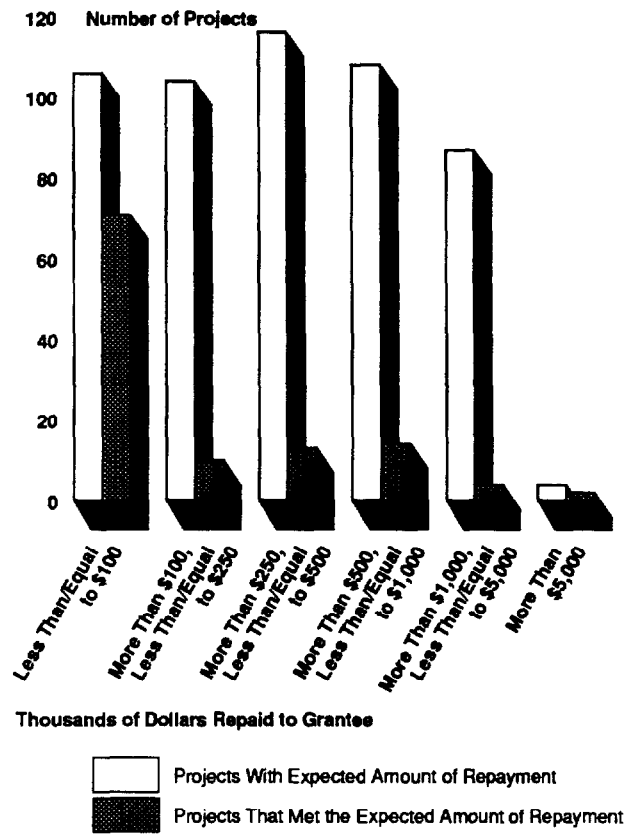



[a]There were 525 completed projects for which we had complete repayment data.

[b]Projects that met or exceeded expectations are shown above the zero level, projects that did not meet expectations are shown below the zero level.

Projects that expected more than $100,000 in repayments typically did not meet expectations. Conversely, of the 106 completed projects that expected repayments of $100,000 or less, 71 (or 67 percent) reported repayments that met or exceeded that expectation. (See fig. II.15.)

**Figure II.15: Distribution of Completed Projects That Reported Meeting Expected Amount of Repayments[a]**




[a]There were 525 completed projects for which we had complete repayment data.

## Reasons Why Projects May Not Meet Expectations

GAO and HUD reports identified several explanations for the differences in expected and reported economic benefits of some projects. First, some projects may have had unrealistic expectations. In a 1985 review of 13 problem projects approved early in the UDAG program, the HUD Office of Inspector General found that some of the jobs goals were not met because the goals were inflated.[15] A January 1982 HUD report found that early predictions of actual job creation are likely to be upwardly biased

[15]National Audit, Urban Development Action Grant Program Administrative Controls, U.S. Department of Housing and Urban Development, Office of Inspector General, 85-TS-143-0007, Mar. 28, 1985

because they are submitted by cities competing for funds by demonstrating higher employment impacts.[16]

Second, some projects may not have met realistic goals. Our 1984 report, Insights Into Major Urban Development Action Grant Issues (GAO/RCED-84-55), which reviewed the expected and actual results of 12 completed UDAG projects, found that these projects exceeded investment expectations and came close to meeting employment expectations, but fell considerably short of realizing projected increases in local tax revenues. The 1985 Inspector General report found that some UDAG projects are not properly completed, thus, the intended program benefits are not realized. Further, these program performance problems are due, in large part, to weaknesses in HUD's contractual controls over the performance of the grantees and developers. They found that 11 of the 13 projects reviewed had 1 or more significant instances of failure to either complete the project or to comply fully with the terms of the grant and developer agreements. The report also noted that, in some cases, grantees and developers did not use their best efforts to provide jobs.

Third, reported data may be inaccurate. HUD officials responsible for the system note that data from semiannual progress reports may be missing because grantees often do not complete these forms. In its 1985 report, the HUD Inspector General found that the significance of the errors in the semiannual progress reports they reviewed indicate an extensive problem with the reliability of the reports. A HUD official responsible for the information system which includes data from the semiannual progress reports told us that there have not been any changes to the reports and how they are processed and reviewed as a result of the 1985 Inspector General report. A UDAG program official told us that ensuring proper reporting is a field responsibility and that this function has received low priority within the Department.

Fourth, project expectations may change after the application has been approved. The data for expected results are drawn from approved project applications. UDAG program officials told us that grant agreements are often amended. According to HUD officials, UDAG projects are largely privately financed economic development projects and are often affected by changes in economic conditions, project financing, and scheduling. They note that it is not unusual for project goals, costs, or

[16]An Impact Evaluation of the Urban Development Action Grant Program, U.S. Department of Housing and Urban Development, Jan. 1982.

private partners to change during the course of construction through project completion.

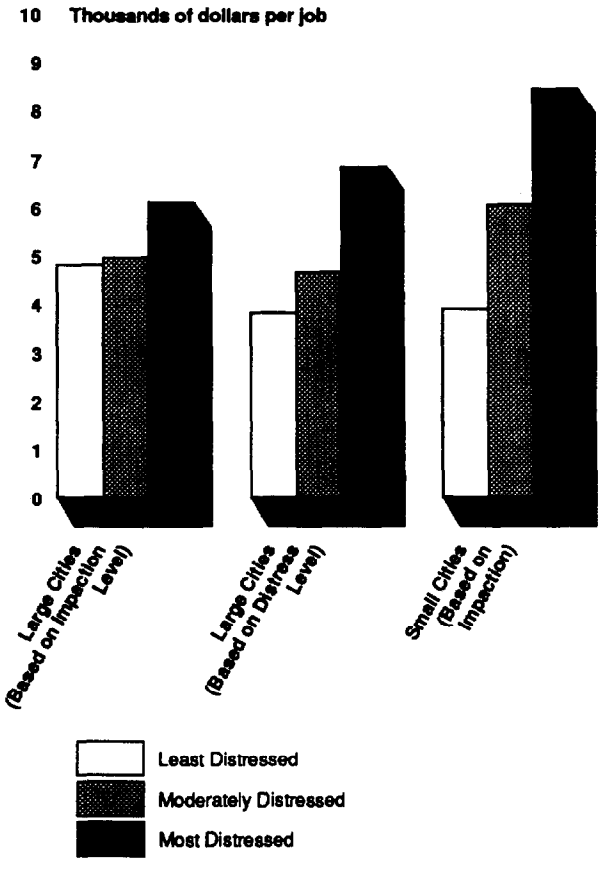
## Relationship Between Distress Level and Economic Benefits

Using data from the March, May, July, and September 1988 funding rounds, we compared the economic distress level of communities that submitted qualifying applications with the expected economic benefits (in terms of private investment and local tax revenue per UDAG dollar, and UDAG dollars per job) from those project applications.[17] We found that projects from the least distressed cities expected greater economic benefits than were expected from projects in the most distressed cities.[18] For example, on the basis of weighted averages, qualifying applications from the most distressed large cities as measured by distress ranking expected to need $6,846 in UDAG funds per job, and promised a leverage ratio of $10.7 for every UDAG dollar, and $0.19 in annual local taxes per UDAG dollar. Qualifying applications from the least distressed large cities, however, expected to need only $3,813 in UDAG funds per job, and promised an average leverage ratio of $19.2 for every UDAG dollar, and $0.61 in annual local taxes per UDAG dollar. A similar relationship holds true for small cities as measured by impaction percentage, and, with the exception of leverage ratios, for large cities as measured by impaction ranking. (See figs. II.16, II.17, and II.18.)

[17]Applications, or qualifying applications as used in this report, include fundable applications only. An application must meet several statutory and regulatory requirements before it is considered fundable.

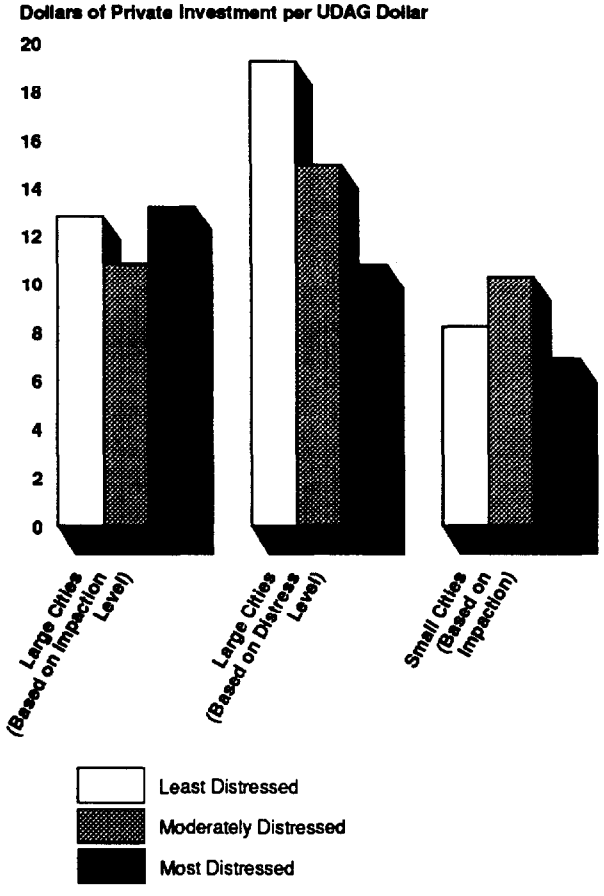
[18]Economic distress in this analysis is based on the impaction and distress rankings for large cities, and the impaction percentile for small cities. As determined by HUD, a large city's impaction ranking is based on its pre-1940 housing, poverty, and population growth lag. Similarly, a large city's distress ranking is based on its unemployment, job lag, and per-capita income. Large cities with rankings of 148 or less are "most distressed." Large cities with rankings of greater than 148 and less than or equal to 296 are "moderately distressed." Large cities with rankings greater than 296 are "least distressed." A small city's impaction percentile is based on its pre-1940 housing, poverty, and population growth lag, and is expressed as a percentage. For purposes of this report, small cities with a value of 33 or less are "most distressed." Cities with values of 66 or less but greater than 33 are "moderately distressed." Cities with values greater than 66 are "least distressed."

**Figure II.16: Relationship Between Economic Distress and Benefits Expected From Qualifying Applications—UDAG Dollars per Job[a]**



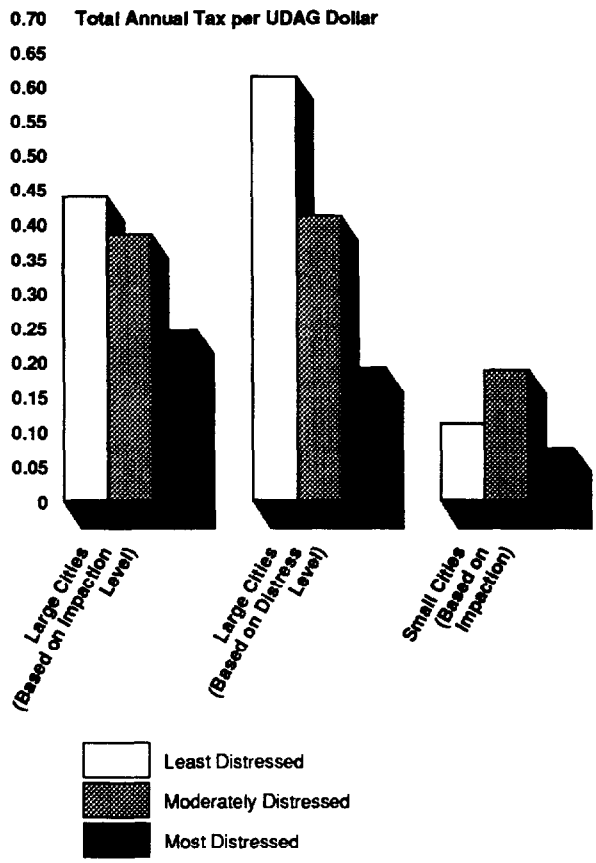

[a]Based on qualifying applications submitted in the March, May, July, and September 1988 funding rounds.

**Figure II.17: Relationship Between Economic Distress and Benefits Expected From Qualifying Applications—Leverage Ratio[a]**




[a]Based on qualifying applications submitted in the March, May, July, and September 1988 funding rounds.

**Figure II.18: Relationship Between Economic Distress and Benefits Expected From Qualifying Applications—Local Tax Increase per UDAG Dollar[a]**




[a]Based on qualifying applications submitted in the March, May, July, and September 1988 funding rounds.

According to HUD data, 65 percent of large-city funds have gone to the one-third most distressed large communities and 41 percent of the small-city funds have gone to the one-third most distressed small communities. In addition, beginning in December 1983, the project selection criteria were based primarily on economic distress factors. Given that projects from the most distressed cities, to which the UDAG program is targeted, generally expect lower economic benefits than projects from the least distressed cities, it is likely that projects selected in the past may not provide the maximum economic results possible. They do, however, provide economic benefits in the most distressed cities. However, we did not assess whether investment, jobs, and other benefits represent net gains to a community, and whether the relative degree of any net gain in bene-

fits varies with a city's level of distress.

The 1987 amendments, however, now give greater emphasis to the expected economic benefits of projects when selecting projects. In our 1989 report, we found that the projects selected under the 1987 amendments had higher expected economic benefits than would have been the case had HUD used the previous selection criteria. We also found, however, that projects from the least distressed cities were selected as a result of the amendments, and concluded that the program therefore was less targeted to the most economically distressed communities.

# Objective, Scope, and Methodology

The Housing and Community Development Act of 1987 requires that we evaluate, in detail, the standards and criteria that measure the level or comparative degree of economic distress of cities and urban counties, and to evaluate the extent to which the economic and social data utilized by the Secretary of HUD in awarding grants are current and accurate, and compare the data used by the Secretary with other available data. The act also requires us to evaluate the effect of the grants awarded on stimulating the maximum economic development activity. We are not making recommendations regarding the collection of data because (1) the data HUD uses are the best available and alternative eligibility methods would result in the eligibility of approximately the same cities, (2) alternative measures of distress have limitations similar to those currently used, (3) collecting additional information or more complete information could be costly, and (4) the Congress has not appropriated funding for the UDAG program for fiscal year 1989.

To evaluate the eligibility standards, selection criteria, and their alternatives, we interviewed officials at HUD, the Census Bureau, the Bureau of Labor Statistics, the Office of Management and Budget, and outside experts in urban development. We also reviewed 12 published reports: 3 previous GAO reports, 5 HUD reports, and 4 other reports. (See bibliography.) Most of the studies we reviewed were published prior to 1984. HUD officials told us that no significant new research has occurred in urban economic distress measures in recent years and the information in these studies is still valid. In presenting information on alternative distress measures, we have omitted some suggested measures because there was either little information on them, they were generally considered invalid in the study from which they came, or studies found that no data were available for that measure.

To evaluate in detail the effect of the grants awarded on stimulating the maximum economic development activity, we compared the expected economic benefits of completed projects such as the leverage ratio, total jobs, annual increased local revenues, and housing units with those reported for those projects. We also compared the distress level of cities that submitted qualifying project applications in the March, May, July, and September 1988 funding rounds with the economic results expected from those projects.

For our comparison of expected and reported results of completed projects, we used data from the UDAG Action Grant Information System. Data on expected benefits are derived from the grant application. Reported benefits are derived from the most recent semiannual progress

report prepared by the grantee.[1] The data should be used carefully because they are often incomplete. That is, the Action Grant Information System does not include expected and/or reported data for many completed projects.[2] In order to compare economic benefits for the same group of completed projects, we only compared projects that included expected and reported data for that comparison. However, missing data do not necessarily mean that there should be data available for that comparison. For example, most completed projects had incomplete housing data. This may be due to the fact that of the 1,282 completed projects, only 301 were neighborhood projects. For comparisons of housing results, we therefore, only used completed neighborhood projects. Where appropriate, we have included the number of observations for which data were complete.

For the comparison of city distress level and expected economic results, we also relied on data from the Action Grant Information System. These data are based on information provided by the applicant. HUD officials told us that these data may change through the life of the project.

We did not assess the reliability of the data on project expectations and results. Although the IG and we[3] have criticized the reliability of these data in the past, they are the only official data available.

Our work was performed primarily at HUD headquarters in Washington, D.C., between August 1988 and February 1989. We obtained oral comments from officials of HUD's Office of UDAG, Office of Program Analysis and Evaluation, and Office of Management on the draft report, and have incorporated their comments where appropriate. They generally concurred with the findings and conclusions of the report. We also discussed the report's contents with officials of the Bureau of Labor Statistics, Bureau of the Census, and the Employment and Training Administration, and have incorporated their comments where appropriate. We conducted our work in accordance with generally accepted government auditing standards.

[1]Except for repayment amounts. We used the largest amount reported for this item only. HUD officials believe that because the grantee is supposed to report a total figure, that figure should not decline over time.

[2]Some projects include values of zero for some data. Officials responsible for the system are not certain whether a value of zero is intentional in all cases. We therefore treated values of zero as missing data.

[3]See Insights Into Major Urban Development Action Grant Issues (GAO/RCED-84-55, Mar. 5, 1984).

# Major Contributors to This Report

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