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STATEMENT OF
HENRY ESCHWEGE, DIRECTOR
COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION

BEFORE THE
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ON

THE DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT'S COMMUNITY
DEVELOPMENT BLOCK GRANT PROGRAM

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

WE APPRECIATE THE OPPORTUNITY TO BE HERE TODAY TO DISCUSS OUR APRIL 30, 1981, REPORT - "THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM CAN BE MORE EFFECTIVE IN REVITALIZING THE NATION'S CITIES" (CED-81-76). THE OBJECTIVE OF OUR REVIEW WAS TO ASSESS THREE IMPORTANT ASPECTS OF THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM: (1) THE DEGREE TO WHICH FUNDS WERE BEING TARGETED ON STRATEGIC GEOGRAPHIC AREAS, HIGH PRIORITY ACTIVITIES, AND LOW- AND MODERATE-INCOME PEOPLE, (2) THE EFFECTIVENESS OF THE BLOCK GRANT REHABILITATION PROGRAM, AND (3) THE QUALITY OF HUD'S MONITORING SYSTEM.

THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM ALLOWS CITIES TO UNDERTAKE A WIDE VARIETY OF ACTIVITIES TO PROVIDE DECENT HOUSING, JOBS, AND NEIGHBORHOODS FOR THEIR RESIDENTS. FUNDS CAN BE USED FOR ACQUISITION AND DISPOSITION OF PROPERTY, STREET

[HUD Community Development Block Grant Program]

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IMPROVEMENTS, WATER AND SEWER FACILITIES, REHABILITATION OF PRIVATE PROPERTIES, PUBLIC SERVICES AND PARKS, PLAYGROUNDS, AND OTHER RECREATIONAL FACILITIES.

THE PROGRAM'S LEGISLATIVE HISTORY SHOWS THAT THE CONGRESS INTENDED COMMUNITIES TO HAVE FLEXIBILITY IN DESIGNING THEIR INDIVIDUAL BLOCK GRANT PROGRAMS WITHIN BROAD NATIONAL OBJECTIVES. IN ESSENCE, THE ACT CALLED FOR MORE FEDERAL INVOLVEMENT THAN A "REVENUE SHARING" APPROACH BUT LESS THAN HAD EXISTED UNDER THE CATEGORICAL PROGRAMS WHICH THE BLOCK GRANT PROGRAM REPLACED.

IN VIEW OF THE DISCRETION AFFORDED GRANTEEES IN IMPLEMENTING THEIR COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAMS, HUD'S INFLUENCE OR CONTROL OVER THE USES MADE OF BLOCK GRANT FUNDS BY GRANTEEES IS LIMITED. AS A RESULT, GRANTEE FUNDING DECISIONS, PROGRAM DESIGNS, AND CONTROLS OVER FUND USAGE MAY NOT ALWAYS BE CONSISTENT WITH FEDERAL PERCEPTIONS ON HOW TO BEST MEET URBAN REVITALIZATION NEEDS. FOR EXAMPLE, WE FOUND THAT:

--ALTHOUGH TARGETING IS IMPROVING, SOME CITIES SPREAD FUNDS TOO WIDELY, THUS DILUTING THE IMPACT THEY MIGHT HAVE ON THE CITIES' REVITALIZATION;

--REHABILITATION FUNDS WERE SPENT FOR LOW PRIORITY ITEMS, AND WERE NOT ALWAYS PROVIDED TO PERSONS IN THE GREATEST NEED;
AND

--AT TIMES THERE WAS INSUFFICIENT INFORMATION TO DETERMINE WHETHER FUNDS WERE PROPERLY SPENT FOR ELIGIBLE ACTIVITIES.

AS PART OF OUR REVIEW WE JUDGMENTALLY SELECTED 15 GRANTEEES TO OBTAIN GEOGRAPHIC DISPERSION AND A GOOD MIX OF SUCH VARIABLES AS THE AMOUNT OF BLOCK GRANT FUNDS RECEIVED AND SPENT; POPULATION

SIZE; DEGREE OF DISTRESS; WHETHER HUD HAD PLACED CONDITIONS ON THE COMMUNITY'S GRANTS FOR ANY REASON; AND THE AMOUNT OF FUNDS SPENT FOR CERTAIN ACTIVITIES, SUCH AS REHABILITATION AND PUBLIC WORKS. HUD OFFICIALS GENERALLY AGREED THAT WE HAD A GOOD MIX OF ENTITLEMENT GRANTEEES.

ALTHOUGH NOT INTENDED TO BE STATISTICALLY REPRESENTATIVE, NOR CAPABLE OF BEING PROJECTED ACROSS THE WHOLE PROGRAM, WE BELIEVE THAT THE ACTIVITIES OF THE COMMUNITIES REVIEWED PRESENT A GOOD CROSS SECTION OF THE ACTIVITIES BEING CONDUCTED WITH BLOCK GRANT FUNDS. OUR FINDINGS ARE FURTHER SUPPORTED IN REPORTS ISSUED BY HUD'S INSPECTOR GENERAL, HUD'S SIXTH ANNUAL REPORT ON THE BLOCK GRANT PROGRAM, AND IN REPORTS PREPARED BY VARIOUS RESEARCH ORGANIZATIONS.

BETTER TARGETING ENCOURAGED

HUD HAS TAKEN SEVERAL INITIATIVES TO ENCOURAGE BETTER TARGETING BY COMMUNITIES, SUCH AS URGING GRANTEEES TO CONCENTRATE FUNDS IN NEIGHBORHOOD STRATEGY AREAS AND FOR THE PRIMARY BENEFIT OF LOW- AND MODERATE-INCOME PERSONS. THESE INITIATIVES HAVE PRODUCED POSITIVE RESULTS, BUT LOCAL COMMUNITY DEVELOPMENT AND HUD OFFICIALS TOLD US THEY WOULD LIKE TO SEE EVEN BETTER TARGETING.

HUD AND LOCAL COMMUNITY DEVELOPMENT OFFICIALS TOLD US THERE ARE PRESSURES AT THE CITY LEVEL TO SPREAD FUNDS AROUND CITIES RATHER THAN TO CONCENTRATE THEM IN DISTINCT DISTRESSED AREAS WHERE SIGNIFICANT IMPROVEMENTS CAN BE MADE IN A REASONABLE PERIOD OF TIME. HUD'S SIXTH ANNUAL REPORT ON THE BLOCK GRANT PROGRAM STATED THAT AT THE LOCAL LEVEL, REQUESTS FROM COMMUNITY LEADERS, ALONG WITH THE LOBBYING OF NEIGHBORHOOD CITIZEN GROUPS, OFTEN RESULTED

IN STRONG PRESSURE TO DISPERSE ALL OR MOST OF A COMMUNITY'S BLOCK GRANT FUNDS TO A LARGE NUMBER OF NEIGHBORHOODS.

COMPOUNDING THE GEOGRAPHIC DISPERSION PROBLEM, THE BROAD RANGE OF ELIGIBLE ACTIVITIES HAS RESULTED IN CITIES FUNDING ITEMS AND ACTIVITIES THAT IN THE VIEW OF HUD AND CITY COMMUNITY DEVELOPMENT OFFICIALS HAVE A QUESTIONABLE RELATIONSHIP TO CITIES' REVITALIZATION NEEDS. FOR EXAMPLE, PUBLIC SERVICES SUCH AS CHILD CARE, HEALTH SERVICES, POLICE SERVICES, EDUCATION, AND COUNSELING ARE ELIGIBLE FOR FUNDING UNDER THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM. ON A NATIONAL LEVEL, THE TREND IN PUBLIC SERVICE EXPENDITURES FROM BLOCK GRANT FUNDS HAS BEEN DOWNWARD. IN THE FIFTH PROGRAM YEAR PUBLIC SERVICE EXPENDITURES WERE ABOUT 9 PERCENT OF ALL BLOCK GRANT FUNDS. YET SOME GRANTEEES STILL USE OVER 20 PERCENT OF THEIR BLOCK GRANT FUNDS FOR PUBLIC SERVICES. MANY LOCAL COMMUNITY DEVELOPMENT OFFICIALS TOLD US THAT THESE SERVICES--AMOUNTING TO ABOUT \$240 MILLION ANNUALLY--ARE OF THE LOWEST PRIORITY IN URBAN REVITALIZATION.

BLOCK GRANT REHABILITATION

OVER 25 PERCENT OF ALL COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS NATIONWIDE ARE USED FOR RESIDENTIAL HOUSING REHABILITATION. THE NEED FOR REHABILITATION FAR EXCEEDS COMMUNITY GOALS AND ACHIEVEMENTS. FOR EXAMPLE, OVER 14,000 HOUSING UNITS IN ONE CITY NEEDED REHABILITATION, BUT ONLY 377 UNITS HAD BEEN COMPLETED, AND ONLY 425 MORE WERE PLANNED FOR REHABILITATION OVER A 3-YEAR PERIOD.

SOME COMMUNITIES WERE USING FUNDS FOR LOWER PRIORITY ITEMS AND FOR PERSONS NOT IN THE GREATEST NEED. EXAMPLES OF WORK PERFORMED INCLUDE REPLACING FUNCTIONAL APPLIANCES, CONSTRUCTING

PATIOS AND SUNDECKS, AND INSTALLING DISHWASHERS AND TRASH COMPACTORS. WE ALSO OBSERVED WIDELY VARYING INCOME ELIGIBILITY REQUIREMENTS, FINANCING TECHNIQUES, AND MAXIMUMS ALLOWED FOR REHABILITATION WORK.

COMMUNITIES PROVIDE BLOCK GRANT-SUPPORTED REHABILITATION FUNDS TO THEIR RESIDENTS THROUGH GRANTS AND LOANS. INCOME ELIGIBILITY LIMITS FOR THE PROGRAMS RANGED FROM STRICT TO NONE AT ALL. IN ONE CITY 31 OUT OF THE LAST 200 LOANS MADE WENT TO RESIDENTS WHOSE ANNUAL INCOME EXCEEDED \$30,000.

WE ALSO FOUND A WIDE RANGE IN THE EXTENT AND TYPES OF REHABILITATION WORK. FOR EXAMPLE, ASSISTANCE FINANCED BY GRANTS RANGED FROM \$1,500 TO \$15,000; AND WORK FINANCED BY LOANS RANGED FROM \$6,000 TO \$35,000. WE RECOGNIZE THAT SOME DIFFERENCES ARE ATTRIBUTABLE TO THE VARYING REHABILITATION NEEDS AND COSTS.

IN A NATIONWIDE REVIEW OF BLOCK GRANT REHABILITATION ACTIVITIES, HUD'S INSPECTOR GENERAL IDENTIFIED OTHER PROBLEMS, INCLUDING PAYMENTS TO CONTRACTORS FOR WORK NOT DONE, POOR WORKMANSHIP, AND FAILURE TO PERFORM OR DOCUMENT INITIAL AND FINAL INSPECTIONS.

MONITORING IS IMPROVING
BUT CONTROLS OVER GRANTEE
EXPENDITURES SHOULD BE
FURTHER ANALYZED

RESPONDING TO PAST REPORTS OF WEAKNESSES IN MONITORING OF BLOCK GRANT RECIPIENTS, HUD HAS MODIFIED ITS GRANTEE MONITORING SYSTEM. THESE CHANGES APPEAR PROMISING IN SOLVING PAST PROBLEMS, BUT IT IS TOO EARLY TO FULLY DETERMINE THEIR EFFECT.

GRANTEES' CONTROLS OVER EXPENDITURES OF BLOCK GRANT FUNDS ARE AN ESSENTIAL PREREQUISITE TO PREVENTING FRAUD, ABUSE, AND WASTE. ALTHOUGH IT WAS NOT THE FOCUS OF OUR REVIEW, WE NOTED NUMEROUS

EXAMPLES WHERE INFORMATION AND CONTROLS WERE INADEQUATE TO ASSURE THAT PROGRAM EXPENDITURES WERE MADE FOR ELIGIBLE ITEMS AND WERE ADEQUATELY SUPPORTED OR JUSTIFIED.

HUD'S INSPECTOR GENERAL HAS IDENTIFIED SIGNIFICANT PROBLEMS IN REVIEWING BLOCK GRANT FUND EXPENDITURES. HOWEVER, HE NEEDS TO ADDRESS SPECIFICALLY THE UNDERLYING CAUSES OF SUCH PROBLEMS AND RECOMMEND ACTIONS TO CORRECT SYSTEMATIC WEAKNESSES.

ISSUES FOR CONSIDERATION

THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM WAS DESIGNED TO PROVIDE GRANTEES WITH FLEXIBILITY IN OPERATING THEIR OWN PROGRAMS. THE PROPER DEGREE OF LOCAL FLEXIBILITY AS OPPOSED TO FEDERAL LIMITATIONS IS SUBJECT TO CONSIDERABLE DEBATE. CLEARLY THERE ARE TRADEOFFS INVOLVED. THERE IS A DELICATE BALANCE BETWEEN THE PROPER DEGREE OF LOCAL DISCRETION AND FEDERAL CONTROLS. WHILE GREATER LOCAL DISCRETION OR AUTONOMY ENABLES LOCAL GOVERNMENTS TO DEFINE AND SET PRIORITIES FOR THEIR USE OF FEDERAL FUNDS BASED ON THE PARTICULAR NEEDS OF EACH COMMUNITY SUCH DISCRETION COULD INHIBIT THE ACHIEVEMENT OF THE NATIONAL OBJECTIVE OF REVITALIZING THE NATION'S URBAN COMMUNITIES.

OUR REVIEW OF THE BLOCK GRANT PROGRAM RAISED QUESTIONS ABOUT THE DEGREE OF FLEXIBILITY GRANTEES SHOULD HAVE IN OPERATING THEIR BLOCK GRANT PROGRAMS. OUR REPORT DOES NOT SUGGEST THAT THERE BE EXCESSIVE FEDERAL INTERVENTION IN THE PROGRAM'S DAY-TO-DAY OPERATIONS, BUT DOES RAISE ISSUES IN SPECIFIC AREAS WHICH WE BELIEVE THE CONGRESS MAY WISH TO CONSIDER. SPECIFICALLY, THESE ISSUES INVOLVE:

- THE DESIRABILITY OF HAVING ALL GRANTEES CONCENTRATE THEIR BLOCK GRANT FUNDS IN DISTRESSED GEOGRAPHIC AREAS SMALL ENOUGH SO THAT VISIBLE IMPROVEMENTS CAN BE ACHIEVED IN A REASONABLE TIME PERIOD.
- RETAINING THE BROAD LIST OF ACTIVITIES CURRENTLY ELIGIBLE, OR INSTEAD, HAVING GRANTEES FOCUS ACTIVITIES ON THE CITIES' MOST URGENT REVITALIZATION NEEDS.
- CONTINUING TO ALLOW GRANTEES TO DECIDE WHO CAN RECEIVE BLOCK-GRANT SUPPORTED REHABILITATION OR SPECIFYING INCOME ELIGIBILITY REQUIREMENTS PROGRAMWIDE.
- FINALLY, WHETHER THERE IS A NEED TO LIMIT ELIGIBLE REHABILITATION WORK TO THAT WHICH IS ESSENTIAL TO RESTORE A HOUSING UNIT TO A SAFE, DECENT, AND SANITARY CONDITION, OR WHETHER OTHER ITEMS OF LESSER PRIORITY SHOULD CONTINUE TO BE ELIGIBLE.

ANY CHANGES ALONG THESE LINES COULD OF COURSE BE IMPOSED BY LEGISLATIVE MANDATE. HOWEVER, IN DOING SO THE CONGRESS WOULD NEED TO MAKE A TRADEOFF BETWEEN THE OBJECTIVE OF FLEXIBILITY FOR LOCAL OFFICIALS TO SET LOCAL PRIORITIES, AND THE OBJECTIVE OF ASSURING THAT FUNDS ARE USED TO MEET NATIONAL PRIORITIES.

THIS CONCLUDES MY STATEMENT. WE SHALL BE PLEASED TO RESPOND TO YOUR QUESTIONS.