

12.12.11 -- 2010 Census Data Impact on Formula Grants – CDBG and HOME

Background

American Community Survey is New Annual Data Source for CDBG, HOME, and (in 2013) ESG.

- The law implementing the Community Development Block Grant (CDBG) program calls for using “the most recent data compiled by the United States Bureau of the Census” for allocating the CDBG funds (42 U.S.C. 5302 (b)).
- In accordance with this mandate, FY2012 marks the first year that the CDBG allocation formula will rely on the Census Bureau’s new annual data source—the American Community Survey (ACS)—and the 2010 Census population counts.
- Similarly HOME requires the formula to most recent census data, which likewise requires moving to ACS data in FY2012.
- Any particular year’s ESG formula allocation is based on the prior year’s CDBG formula calculation. So for jurisdictions receiving ESG allocations, effects will not take place until 2013.
- Factors that determine formula allocations for block grants are, by statute:
 - **HOME**-- high relative poverty, large number of renters in poverty, pre-1950 housing stock, poor housing conditions and high construction costs.
 - **CDBG** -- Two formulas are used: **Formula A** measures population, poverty and overcrowded housing; **Formula B** measures poverty, pre-1940 housing, and growth lag (for Entitlements) or population (for States). Each grantee receives the greater of the two formula amounts, adjusted to fit the total appropriation amount.

Q& A – General

Q: Are the ACS data or the Census population counts appealable?

A: HUD is a consumer of the data provided by the Census Bureau and any appeals would be made to the Census Bureau. It should be noted that Census updates population estimates on an annual basis and a portion of the ACS data will be updated annually on a rolling basis by replacing the oldest year’s data with more current data.

Q: Why is HUD implementing these changes on the heels of the reductions to CDBG and HOME funding over the past two years?

A: The CDBG and HOME authorizing statute requires HUD to use the most current available Census data to calculate the CDBG formula. The population count from the April 2010 Census is and the new annual data source American Community Survey is now the most current data source.

Q: Does HUD have any discretion in the amount allocated to my jurisdiction?

A: No. By law, HUD must allocate all CDBG and HOME funds in accordance with the formulas.

Q: What help can HUD offer as our jurisdiction evaluates the use of CDBG and HOME funds at the local level?

A: The CPD field office that serves your jurisdiction is the place to seek assistance at this point. Many grantees are facing the difficult task of re-evaluating the structure of their programs as it

will be difficult to sustain traditional funding patterns at the local level given the reduced resources. Your CPD representative can offer suggestions based on experience with other grantees. Further, CPD has launched a new, comprehensive technical assistance effort known as OneCPD which will include a website where grantees can pose questions and receive rapid responses on a wide range of issues including restructuring concerns. Additional information will be forthcoming in the next few months with regard to One CPD.

Q: Is it true that ACS does not cover very rural areas? If so, how are overcrowding and housing conditions in these areas taken into consideration in the formulas, especially for states?

A: Not true. ACS covers all areas.

Q: How does HUD address the margin of error on ACS data, given that it is a new Census product?

A: HUD uses the Census Bureau's mid-point estimate for ACS as it always did with decennial census data. HUD trusts in the accuracy of the data provided by the Census Bureau and does not undertake any review of the data.

Q&A -- CDBG

Q: Can I see how the ACS data affects the CDBG allocation to my jurisdiction?

A: HUD's Office of Policy Development and Research (PD&R) has just issued a report entitled "Redistribution Effect of Introducing 2010 Census and 2005-2009 ACS Data into the CDBG Formula." The report explains the new data and includes several appendices that detail the effect of those data on CDBG formula factors and, hence, on CDBG allocations. A web link to the report was included with the email letter informing your jurisdiction of the CDBG and HOME planning estimates for FY 2012

Q: What other programs does HUD administer that can help fill the gap left by lower CDBG allocations?

A: The range of programs is somewhat limited. The Section 108 loan guarantee program is part of CDBG and can be used for CDBG-eligible activities such as economic development, infrastructure and public facilities, and housing rehabilitation. CDBG grantees may borrow up to five times their current CDBG allocation under Section 108. Grantees should also ensure that they are effectively leveraging other resources such as CDBG and HOME program income, other public funds and private funds.

Q: Why did my jurisdiction's formula allocation decrease much more than the 11 percent decrease in the appropriation between 2011 and 2012?

A: Many CDBG grantees will see their allocation decrease much more than the 11 percent decrease in the appropriation between 2011 and 2012. This can happen because of a combination of factors at work: the use of new Census data for 2012; the way the CDBG program formula works; and the number of grantees eligible for CDBG funding.

The CDBG program uses two different formulas to calculate allocation amounts for entitlement grantees. The formulas for states are similar with the exception that population is substituted for growth lag in Formula B.

Formula A uses the following factors:

- population (weighted at 25%);
- number of poverty-level persons (weighted at 50%); and
- number of overcrowded housing units (weighted at 25%).

Formula B uses:

- growth lag (weighted at 20%);
- number of poverty-level persons (weighted at 30%); and
- number of pre-1940 housing units (weighted at 50%).

HUD computes an allocation amount for every grantee using both formulas; grantees receive their funding based on the higher of the two formula amounts (after a pro-rata reduction to make the sum of all allocations equal the appropriation level for the program).

Finally, the number of entitlement grantees has increased by 17 from 2011 to 2012. Thus, not only is there less money in 2012, it must be divided up among more grantees, and different data will be used compute each grantee's allocation amount.

Q&A -- HOME

Q: My jurisdiction's FY 2012 HOME allocation fell below the \$500,000 participation threshold for the HOME Program. Will we still receive an allocation? Will we be required to make up the difference between our allocation and our formula allocation amount in order to continue to participate in HOME?

A: Yes. As long as your jurisdiction received a HOME formula grant allocation in FY 2011, it will receive an FY 2012 allocation even if the allocation falls below \$500,000. No, your jurisdiction is not required to make up the difference between your formula allocation and \$500,000.

Q: My jurisdiction's FY 2012 HOME allocation is so small that we are not sure that we can administer the program with only 10% program administration allowed under the HOME regulations. If our community decides to decline the FY 2012 HOME allocation, what happens to our grant money?

A: When a local Participating Jurisdiction (PJ) declines its HOME allocation, the funds that would have been awarded to the local government are added to the State's HOME allocation. The State may use the HOME funds in the same manner as the rest of its HOME allocation; it may choose to use the funds for a project or program in the community that declined the allocation, but it is not required to do so.

Q: If my jurisdiction declines its FY 2012 HOME grant but determines that it would like to resume participation as a HOME PJ at some future time, would we have to meet the HOME qualification threshold (\$500,000) and potentially make up any shortfall (up to the \$750,000 participation threshold) or would we continue to qualify as a PJ?

A: An existing PJ that chooses to decline its HOME allocation for one or more years does not lose its ongoing qualification as a PJ. It will continue to be included in the HOME formula run and resume participation at its option. However, the rules applicable to HOME PJs that are consortia are somewhat different. If a consortium chooses to decline its allocation during the three-year period of its consortium agreement will continue to qualify as a PJ as long as its HOME consortium agreement has not expired (e.g., the consortium could decline its allocation

in year 2 of its agreement and resume participation in year 3). However, once the three-year term of the consortium agreement is over, the consortium would no longer qualify as a PJ.

Q: Why did my jurisdiction's formula allocation decrease much more than the 38 percent decrease in the appropriation between 2011 and 2012?

A: Many HOME PJs saw decreases much larger than the 38 percent decrease in the appropriation between 2011 and 2012. The HOME statute requires HUD to use the most recent available data to run the HOME formula. In the past, the most recent data used has been the decennial census, which would have been used for the FY 2012 HOME formula. However, beginning in FY 2012, the Department used the most recent American Community Survey data for the HOME formula. The American Community Survey, which updates demographic information for approximately 20 percent of the United States each year, will be used to determine subsequent years' HOME formula allocations.

The HOME formula has six factors, which are:

1. Vacancy-adjusted rental units where the household head is at or below the poverty level.
2. Occupied rental units with at least one of four problems (overcrowding, incomplete kitchen facilities, incomplete plumbing, or high rent costs).
3. Rental units built before 1950 occupied by poor households.
4. Rental units described in #2 above multiplied by the ratio of the cost of producing housing for a jurisdiction divided by the national cost.
5. Number of families at or below the poverty level.
6. Population of a jurisdiction multiplied by a net per capita income.

When the HOME formula is run each year, data from the American Community Survey for each PJ is applied to the six formula factors. The first and sixth factors are weighted 0.1; the other four factors are weighted 0.2. Since factors 2 through five are double-weighted, these factors take on increased significance in determining each PJ's formula allocation.

The HOME formula's focus on the condition of housing and market conditions makes it very different from the CDBG formula.

Q: Would my jurisdiction receive more HOME funds if it formed a consortium with neighboring jurisdictions?

A: Forming a consortium with geographically contiguous units of local government almost always leads to an increase of funding over the current level if there is no change in the HOME appropriation. In FY 2012, there were actually two new consortia that did not receive a HOME allocation because of the unexpected, significant decrease in the HOME appropriation. HOME consortium is not easy. In fact, many consortia perform poorly and some eventually disband because the difficulty of administering a program with neighboring jurisdictions is often underestimated.

If your jurisdiction is interested in forming a HOME consortium, the guide to *Establishing and Managing a Successful HOME Consortium* is prerequisite reading. The guide can be found here:

http://www.hud.gov/offices/cpd/affordablehousing/programs/home/consortia/200608_guide.pdf.