RULES COMMITTEE: 4-12-06
ITEM: C(2)

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: RULES COMMITTEE

FROM: Leslye Krutko
Albert Balagso

SUBJECT: CDBG FORMULA CHANGES

DATE: April 6, 2006

Approved Deanna Santana

Date 4/6/06

Council District: All
SNI: All

RECOMMENDATION

It is recommended that the Rules Committee recommend to the Mayor and City Council that City staff work with the U.S. Department of Housing and Urban Development and the U.S. Congress to oppose proposed changes to the Community Development Block Grant (CDBG) formula that would adversely impact the City of San Jose.

OUTCOMES

Approval of the staff recommendation will allow staff to work with HUD and Congress to ensure that any changes to the CDBG formula allocation will not adversely impact the federal resources available to the City to meet housing and community development needs.

EXECUTIVE SUMMARY

The U.S. Department of Housing and Urban Development (HUD) is proposing to change the funding formula for the Community Development Block Grant (CDBG) Program. Certain changes under consideration would reduce the federal funding allocated to the City of San José annually. It is recommended that City staff be authorized to communicate with HUD and relevant members of Congress to relate concerns regarding the formula changes and recommendations for improvements.

BACKGROUND

The CDBG program has been a vital resource for local governments to improve lower-income communities. Last year, the President's budget proposed the elimination of the CDBG program and transfer of funds to the U.S. Department of Commerce. As a result of the widespread opposition to the President's proposal, Congress refused to eliminate, or move the program, or to adopt the proposed budget reductions.

The President's Federal Fiscal Year 2007 budget proposal was released in February. An Information Memo was sent to the Mayor and City Council on February 28, 2006 from the Director of Intergovernmental Relations highlighting some of the key policy and budgetary changes reflected in the President's proposed budget. One of the programs most significantly impacted was the Community Development Block Grant (CDBG) program. Under the President's budget, funding for the CDBG program would be reduced by 25%, or $1 billion, the lowest level of funding for this program since 1990. Under the proposed budget, funding for the City of San Jose would be reduced by an estimated $2,578,427.

ANALYSIS

In addition to the cuts requested by the President, the budget also proposes to drastically change the CDBG funding distribution formula to better reflect the relative need of need of entitlement jurisdictions across the country. While the President's proposal does not detail how funds would be distributed under a new formula, a study released by HUD in February 2005 may provide an indication of what HUD is considering. At that time, HUD introduced four alternative funding distribution formulas. This memorandum analyzes the current allocation formula and the impacts of the four alternatives to San José and the rest of the region.

Current CDBG Formula

HUD currently uses two basic formulas, known as Formula A and Formula B, to allocate CDBG funds to entitlement communities and states. Under the current system, local entitlement communities receive 70% of the total CDBG funds appropriated by Congress and states receive 30% to distribute to "non-entitlement" jurisdictions.

The current CDBG funding Formula A allocates funds to a community based on its metropolitan share of: (1) population (weighted at 25%), (2) poverty (weighted at 25%), and (3) poverty rates (weighted at 50%). Formula B allocates shares based on: (1) share of growth lag[1] (weighted at 20%), (2) poverty (weighted at 30%), and (3) pre-1940 housing (weighted at 50%). Both calculations are run for each entitlement jurisdiction and the greater number is assigned to the entitlement jurisdiction. San José generally qualifies under Formula A given that it has not experienced a growth lag, its federal poverty levels are not relatively high, and the City has a relatively newer housing stock.

One of the major concerns with the current funding formula is that the indicators typically are designed with the needs of older, East Coast cities in mind. For example, 2004 Census information shows that 11% of residents in San José were below the federal poverty rate ($19,484 for a family of four). In comparison, the City of Cleveland has a poverty rate of 23% but also a lower cost of living. While San José has fewer residents living at or below the federal poverty level, it is a high cost area with significant income disparities. In San José, households

[1] HUD defines growth lag as "shortfall in population that a city or county has experienced when comparing its current population to the population it would have had if it grew like all metropolitan cities since 1960."

earning less than the federal poverty level are at 20% of area median income, while similar households in Cleveland make nearly 32% of the city's median family income. Although area median income for a family of four stands at $97,100—one of the highest in the nation—more than 93,000 households, or 34% of San José residents are considered low-income. When considering the age of housing stock, San José only has about 3.6% of its total housing built prior to 1940. In comparison, Cleveland has 65% of its entire stock built prior to 1940. Additionally, because of these factors, the City of Cleveland anticipates receiving $24,564,539 in Community Development Block Grant (CDBG) funding, compared to San José's funding level of $10,313,000 in Fiscal Year 2006-2007.

In recent years, HUD has recognized some of the inequities in the current funding formula, citing some of the following concerns[2]:

- The most needy grantees do not get substantially more on a per capita basis than the least needy grantees.
- Pre-1940 housing variables allocate funds to some communities that have old housing but otherwise do not have any community development need
- The growth lag measure used in the existing formula contributes to the inequity because many slow growth communities, and even some that have lost population, do not suffer economically.
- On average, grantees that receive Formula A allocations (like San José) get substantially less than similarly needy Formula B grantees due to the way the funding is distributed amongst the A and B formula for jurisdictions.
- The poverty variable results in "over funding" for college towns relative to their per capita need.

Four Alternatives and Impact on San José and the Bay Area

Given these known concerns, HUD is considering change to the CDBG formulas. The following table shows the current weighting system and that of the four alternatives. Note that Alternative 3 and Alternative 4 are similarly weighted. However, under Alternative 3 the CDBG Allocations would be split 70/30 between entitlement jurisdictions and non-entitlement jurisdictions and Alternative 4 would not split the allocation between non-entitlement and entitlement jurisdictions. HUD also changed some of the definitions from those previously used. Under the Alternatives, HUD would define Poverty as "persons living in family households or elderly headed households living in poverty" and Pre-1940s housing as "housing 50 years or older occupied by a poverty household."

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[2] "*CDBG Formula Targeting to Community Development Need.*" US Department of Housing and Urban Development. February 2005.

Table 1 – Weighting of Current Formulas and Proposed Alternatives						
	Overcrowding	**Pre-1940's Housing**	**Poverty**	**Female Head of Hshld. w/ Kids**	**Population**	**Growth Lag**
Current Formula A	25%		50%		25%	
Current Formula B		50%	30%			20%
Alternative 1 (New Formula A)	30%		60%		10%	
Alternative 2	20%	20%	50%	10%		
Alternative 3	10%	30%	50%	10%		
Alternative 4	10%	30%	50%	10%		

Tables 2 and 3 show the percentage change from the cities' 2004 CDBG grant allocation if the alternative formulas had been used. As demonstrated below, even though San José does better under Alternatives 1 and 2, HUD is essentially using indicators that do not represent the needs of high cost areas. This is true for most of the cities in Santa Clara County (See Table 2).

Table 2 – Santa Clara County and Cities				
City	**Alt. 1**	**Alt.2**	**Alt.3**	**Alt. 4**
City of San Jose	10%	8%	-3%	-1%
Co. of Santa Clara	-6%	-5%	-43%	-43%
Cupertino	1%	-8%	-51%	-50%
Gilroy	16%	18%	14%	14%
Milpitas	7%	-6%	-29%	-25%
Mountain View	-1%	-9%	-49%	-47%
Palo Alto	-55%	-49%	-67%	-67%
Santa Clara	-1%	-5%	-31%	-29%
Sunnyvale	3%	-6%	-44%	-41%

Concerns with the New Formulas

Generally, larger cities do better under these new formulas. However, San José would not do as well as other large cities, in part because poverty and pre-1940s housing are still weighted between 60 – 80% (See Table 3).

Table 3 – Nation's 10 Largest Cities				
City	**Alt. 1**	**Alt. 2**	**Alt. 3**	**Alt. 4**
New York	21%	23%	32%	30%
Los Angeles	18%	39%	19%	18%
Chicago	-2%	-17%	1%	-1%
Houston	17%	32%	20%	19%
Philadelphia	12%	-18%	11%	9%
Phoenix	13%	23%	13%	12%
San Diego	6%	18%	-4%	-5%
San Antonio	16%	41%	34%	31%
Dallas	16%	31%	22%	21%
San José	10%	8%	-3%	-1%

Staff recommends that HUD consider other factors to determine distribution of funds. For example, using the number of jobs a community has lost might be a better indicator of incomes and need. Additionally, instead of solely measuring the percentage of those in poverty, on a national scale, HUD could look at the numbers of households who are actually low-income or the number of individuals or households actually in poverty. For example, in Cleveland there are 96,895 people in poverty, in San José there are 99,216 people in poverty. Therefore, there are just as many people to serve who are in poverty in San José, but we receive 40% less funding than Cleveland. By implementing one of these two methods, it would help to balance out the fact that areas have vastly different incomes, but can still be in need of housing and services. Lastly, HUD should place greater weight on overcrowding, as a good measure of a community's housing condition, instead of the amount of housing stock built prior to 50 years ago.

COORDINATION

The development of this memorandum was coordinated with the City Manager's Office, the City's federal lobbyist, and the City Attorney's Office.

CEQA

Not a project

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