
NEW FEDERALISM IN THE NEW SOUTH:

An Assessment of State Administration of
Community Development Block Grants

Executive Summary

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Executive Summary

Introduction

This study evaluates the initial consequences of state administration of the Small City Community Development Block Grant program in Alabama, Georgia, Louisiana, and North Carolina. Control over the small city program was transferred from the U. S. Department of Housing and Urban Development (HUD) to state governments in 1981, as part of the Reagan Administration's New Federalism initiatives. This report examines differences in federal and state administration regarding program priorities, the distribution of program benefits across income groups, procedures for allocating funds to local governments, and civil rights enforcement.

Findings

State administration of the small city program differed from federal supervision in a number of ways. While there are exceptions, in general, the four states gave less emphasis than HUD to housing and other activities whose benefits were concentrated on lower income groups and more to economic development, and other activities which benefited a broader range of income groups. Over the first two years of program operation, these states have also spent progressively less money in areas with heavy concentrations of poor and minorities. Finally, three of the four states have relied on complaint based mechanisms for enforcing civil rights requirements. Such mechanisms have been found to be a relatively ineffective means of enforcement.

Detailed findings are as follows:

1. All four states to a greater or lesser extent have reduced HUD's program emphasis on housing and other activities designed to benefit lower income groups in favor of a greater emphasis on economic development, infrastructure and other public facilities. HUD's operation of the program emphasized housing and neighborhood development in several ways. First, approximately two-thirds of program funds were devoted to so-called multi-year comprehensive grants. Under these grants, localities could secure funding for up to three years for programs which combined housing rehabilitation and improvements with such activities as street and sidewalk renovation, the rehabilitation of infrastructure, and the construction of public facilities in particular neighborhoods. Second, applications which stressed housing and such related activities were favored in the application scoring process in several ways. Such applications generally received better ratings for program effectiveness than applications which proposed other types of activities. Further, since the benefits of these activities tend to be concentrated in the neighborhoods in which they are located, it was generally easier for localities which proposed such projects to demonstrate they would benefit low and moderate income individuals than communities which had proposed other types of activities. Finally, HUD awarded "bonus" points in the project scoring process to communities which had demonstrated attention to housing problems.

All four of the states in this study adopted policies designed to reduce or eliminate this emphasis on housing. All four eliminated the use of multi-year grants and the system of bonus points for prior housing achievements. As noted below, all four also reduced the importance of benefits to lower income groups as a factor in project selection, thus lessening the competitive advantage

of housing applications. Several states also established separate funding categories for public facilities and economic development to insure that minimum amounts of funds were devoted to these activities. While precise conclusions about the consequences of these changes are difficult to make, it seems likely that state administration has produced a substantial decline in the share of funds devoted to housing and related activities. Of the four states included in this study, only North Carolina has retained a major programmatic emphasis on housing and neighborhood development.

2. All four states have reduced the importance of benefits to low and moderate income groups as a criteria for project selection. Under HUD administration, benefits to lower income groups had been given considerable weight in project selection. The level of benefits was given a relatively heavy weight in selection criteria, and projects were scored in a fashion designed to recognize variations between applications in such benefits. An application that proposed activities which concentrated 90 percent of their benefits on low and moderate income groups, for example, received substantially higher scores on this factor than an application which provided only half of the benefits to such groups.

All four states took steps to reduce this emphasis. In Alabama and Louisiana, the standard for low and moderate income was raised so that more people fall into this group, making it easier for a project to claim benefits. Second, the weight given to this factor has been reduced in all four states. The procedure most frequently used to achieve this aim has been to eliminate the extra credit given to applications which devote a large share of their benefits to lower income groups. While all four states require a minimum share of project benefits go to lower income groups, added benefits above this

threshold are frequently not recognized or are given less weight than under HUD's system, thereby reducing the importance of need in project selection. While definitive conclusions are difficult, it seems likely that fewer benefits are accruing to lower income groups under state control.

3. The distribution of funds has become progressively less responsive to community need over the first two years of state administration. This study compares the distribution of funds under HUD and state administration and evaluates whether federal or state administrators have been more successful in targeting funds on areas with the most severe program needs. Because of problems with the availability of data, this comparison was made at the county level.

The results of this analysis are presented in Table 1, which compares federal and state distribution of funds against several measures of area need in all four states. The indices of housing and community conditions are standardized measures which combine data from the 1980 Census on the structural quality of the local housing stock, population change, and percent of the population below the poverty level. These figures suggest two major conclusions. First, while neither state nor federal administrators have been particularly successful in targeting funds on needy areas, HUD appears to have been somewhat more successful than state agencies. In most cases, the relationship between federal expenditure and need is stronger, if only slightly, than that between state expenditure and need, particularly in the second year of state administration. In Georgia and North Carolina, states did better than HUD in 1982, but worse in 1983, while Louisiana targeted less effectively than federal administrators in both years. Alabama did slightly worse than HUD in 1982, and approximately the same in 1983.

TABLE 1

CORRELATIONS BETWEEN NEED MEASURES AND FEDERAL
AND STATE PROGRAM SPENDING

<u>ALABAMA</u>					
<u>GEORGIA</u>					
Need Measure	Share of Federal Expenditures 1978-80	Share of State Expenditures 1982	Share of State Expenditures 1983	Share of Federal Expenditures 1978-80	Share of State Expenditures 1982 1983
Housing Quality Index	-.02	-.21	-.20	-.26	-.07 -.29
Community Con- dition Index	.05	-.04	.05	-.20	0 -.24
Percent Non- White	.07	-.02	.13	-.03	.16 -.01
Percent Poverty	.03	.06	.06	-.11	.01 -.24
<u>LOUISIANA</u>					
<u>NORTH CAROLINA</u>					
Need Measure	Share of Federal Expenditures 1978-80	Share of State Expenditures 1982	Share of State Expenditures 1983	Share of Federal Expenditures 1978-80	Share of State Expenditures 1982 1983
Housing Quality Index	-.03	.06	-.33	.04	.05 -.20
Community Con- dition Index	.24	.08	-.27	.08	.14 -.01
Percent Non- White	.13	.01	-.45	.27	.44 .14
Percent Poverty	.39	.20	-.13	.21	.27 .13

Perhaps more importantly, these figures indicate a decline in the relationship between need and funding between 1982 and 1983. In three of the four states, appreciably less funds were spent in needy areas in the second year of program administration than in the first. Only in Alabama was the relationship between need and funding stronger in 1983 than in 1982. While these data are not conclusive, they do suggest that, if this trend continues, an increasing share of program funds will be spent in prosperous areas.

4. States are also spending increasingly smaller amounts of program funds in areas with concentrations of blacks and other minorities. Table 2 compares state and federal spending in each state in the groups of counties with the largest and smallest minority concentrations. These figures suggest that three of the four states spent a smaller share of program funds in heavily minority areas in 1983 than in 1982; and all four states spent a larger share of funds in predominantly white areas in the second year of program operation than in the first. Only in Alabama did the share of funds going to predominantly minority areas not decline. In three of the four states, the share of spending in areas with concentrations of minorities in 1983 was less than federal spending in the same counties between 1978 and 1980.

It should be noted that there was no evidence whatever of any discriminatory intent on the part of any state. Rather, this shift in funding patterns was the result of state decisions to give less emphasis to housing and low income benefits as criteria in project selection. Since minority areas are likely to have a larger percentage of their populations with incomes below the poverty level and residing in deficient housing, allocation schemes which give less weight to these factors will result in a shift of funds away from these areas.

TABLE 2

SHARE OF FEDERAL AND STATE FUNDS IN COUNTIES WITH LARGEST AND
SMALLEST CONCENTRATIONS OF MINORITIES

ALABAMA

Quartiles	Mean Percentage Non-White	Share of Federal Expenditures 1978-80	Share of State Expenditures	
			1982	1983
Lowest	5.6	18.4	25.5	28.6
Highest	60.8	36.8	31.0	32.2

GEORGIA

Quartiles	Mean Percentage Non-White	Share of Federal Expenditures 1978-80	Share of State Expenditures	
			1982	1983
Lowest	5.9	11.6	16.7	24.8
Highest	51.2	18.6	32.8	25.1

LOUISIANA

Quartiles	Mean Percentage Non-White	Share of Federal Expenditures 1978-80	Share of State Expenditures	
			1982	1983
Lowest	13.9	17.2	12.8	16.5
Highest	49.9	23.5	16.7	9.3

NORTH CAROLINA

Quartiles	Mean Percentage Non-White	Share of Federal Expenditures 1978-80	Share of State Expenditures	
			1982	1983
Lowest	3.6	16.0	6.5	21.8
Highest	49.2	26.7	40.7	26.1

TABLE 3
DISPERSION OF STATE AND FEDERAL CDBG
ALLOCATIONS IN FOUR SOUTHERN STATES 1982-1983

ALABAMA

Quintile		Total Percentage Federal	Total Percentage State 1982	Total Percentage State 1983
Highest Funding	I	46.6	55.9	36.5
	II	29.5	27.5	22.0
	III	13.0	13.5	18.2
	IV	7.5	2.9	14.1
Lowest Funding	V	3.5	.2	9.2
		100.1	100.1	100.1

GEORGIA

Quintile		Total Percentage Federal	Total Percentage State 1982	Total Percentage State 1983
Highest Funding	I	53.3	39.0	48.3
	II	19.9	28.5	22.3
	III	11.5	16.4	14.8
	IV	9.9	11.0	10.8
Lowest Funding	V	5.5	5.1	3.7
		100.1	100.1	100.0

LOUISIANA

Quintile		Total Percentage Federal	Total Percentage State 1982	Total Percentage State 1983
Highest Funding	I	34.6	57.4	49.9
	II	27.0	25.9	19.0
	III	17.9	14.7	18.7
	IV	13.9	1.8	6.7
Lowest Funding	V	6.7	.3	5.6
		100.1	100.1	99.9

NORTH CAROLINA

Quintile		Total Percentage Federal	Total Percentage State 1982	Total Percentage State 1983
Highest Funding	I	44.4	44.8	40.3
	II	24.2	25.4	22.3
	III	16.0	20.4	17.7
	IV	9.6	8.9	16.1
Lowest Funding	V	5.6	.4	3.7
		100.0	99.9	100.1

problems, since many citizens are unaware of their rights under federal legislation and find it difficult to locate and contact the appropriate office. Alabama was the only state that took any additional measures to insure grantee compliance with civil rights requirements. HUD appears to have done little to encourage states to develop more aggressive programs of compliance monitoring.

7. There has been a substantial reduction in the amount of data states are required to collect and maintain about program operations and beneficiaries. While frequently reviled as unnecessary red tape, such data represents one of the few ways in which programs can be effectively monitored and evaluated. Without reasonably current and uniform information on state program emphasis, spending levels, beneficiaries and other major areas of operation, it is difficult for citizens, interest groups, or other concerned parties to assess how well states are doing in administering the program. Indeed, the absence of such information was one of the major obstacles encountered in the preparation of this report.

Recommendations

These findings generate several recommendations for change in program operations at both the state and federal level. Five are particularly important:

1. State agencies should re-examine their procedures for allocating funds and alter them to give greater weight to community need factors in the project selection process. For any of a number of reasons, program funds should be concentrated on those areas with the most severe community development needs. While the states examined in this report all consider community need in some fashion in allocation decisions, this factor is becoming progressively less

important in determining which areas receive funds. States should modify their project selection criteria to give greater weight to such factors as poverty and substandard housing in order to insure that needy communities receive adequate funding to address their problems.

2. States should alter their program emphases to provide more support for housing and neighborhood development projects of the type encouraged by HUD during its administration of the program. All four states have reacted to HUD's emphases on housing by devoting considerable support to economic development and public facilities. In our view, this reaction has been too great. Rural housing in these four states is significantly worse than in the rest of the country, indicating that housing and related activities should be of at least equal priority with economic development and public improvements.

3. States should also give greater priority to low and moderate income benefits in the project selection process. All four states have reduced, in some cases substantially, the importance of this factor in allocation decisions, making it possible for almost any project to meet current standards. These standards are in general too lenient and should be strengthened both by raising the threshold for minimum benefits to these groups and increasing the weight given to such benefits in project ranking schemes.

4. HUD should increase its supervision of state civil rights enforcement activities both to encourage more aggressive state monitoring and compliance activities and to insure that potential compliance problems are identified and solved. Independently, states should alter their reliance on complaint oriented

enforcement procedures and initiate more active enforcement of civil rights statutes.

5. HUD should increase minimum data collection and reporting requirements for states to insure both that citizens and other interested groups can monitor and evaluate state program priorities and effectiveness and that state compliance with the objectives of the legislation can be determined. Over the period under consideration here, states were not required to report data in any uniform fashion on program priorities or spending or on the beneficiaries of such spending and could submit as much or as little data as they saw fit to demonstrate they had complied with national objectives. At a minimum, HUD should require sufficient uniform data be collected and reported so that citizens and other interested groups at both the state and national level can obtain a clear understanding of what activities program funds are being used to support, which areas and income groups benefit from them, and what steps are being taken to insure compliance with relevant civil rights requirements.

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