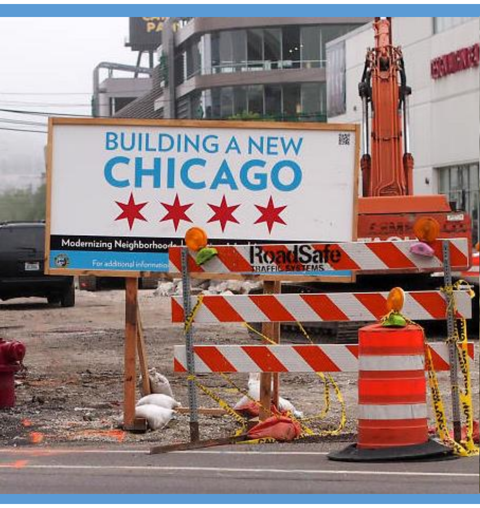
November 20, 2017

The Elimination of the Community Development Block Grant (CDBG) Program:

Impacts on Illinois



A Higher Road for a Better Tomorrow
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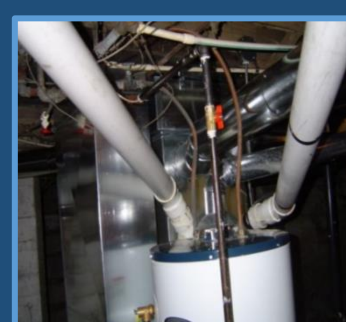

Executive Summary

Tax reform and budget proposals currently being discussed in Congress will directly impact the lives of working and middle-class families, with the Community Development Block Grant (CDBG) program being one of the most harmed. In a recent survey, 63 percent of U.S. mayors responded that the elimination of the CDBG program would have a negative impact on their cities. Recent tax reform proposals result in $1.5 trillion less revenue for the federal government, which can only lead to spending cuts of existing programs. Tax reform alone is expected to benefit the wealthy more than the middle-class, but the impacts are even more striking when considering specific program cuts.

The Trump Administration's fiscal year 2018 budget proposal included the complete elimination of the CDBG program as part of $6.2 billion in cuts to the U.S. Department of Housing and Urban Development (HUD). The CDBG program is a federal block grant that gives state and local governments access to flexible funding for infrastructure projects, economic development initiatives, housing rehabilitation programs, and critical public services to help low-to-moderate income people.

Statewide, the cuts to the CDBG program will:

- Result in more than 460,000 low-to-moderate income people losing direct assistance;
- Eliminate over 1,800 full-time jobs paying an average income of $62,000, including 1,000 jobs in the Chicago area and nearly 800 jobs outside of the Chicago area;
- Reduce economic output by nearly $170 million; and
- Reduce state and local tax revenues by nearly $5 million dollars.

Nationwide, the Trump administration's proposal would:

- Result in nearly 24 million low-to-moderate income people losing direct assistance, including 4.5 million special needs persons, 4 million elderly Americans, and about 150,000 veterans;
- Eliminate about 60,000 jobs and negatively impact over 32,000 businesses and federal contractors; and
- Result in more than 11,000 city and county public projects shutting down.

The Administration has justified its proposal to cut the CDBG program by arguing that the program is not effective, that it poorly targets those in need, that state and local governments are better positioned to address local community development needs, and that many aspects of the program have become outdated. Yet the economic consequences of eliminating the program reveal that CDBG funds have demonstrable results, with cuts severely impacting low-income and middle-class families. Additionally, state and local governments – especially in Illinois – are not in a position to fill the funding gap left from a $3 billion cut in CDBG investments.

In lieu of a complete cut, Congress and the Trump Administration should consider the five following reforms to improve the CDBG program.

1. Redefine or rename "entitlement" and "non-entitlement" areas;
2. Use a formula in rural areas to reduce administrative costs and make funding equitable;
3. Standardize HUD accounting rules;
4. Further incentivize cities to geographically target CDBG funds; and
5. Require cities to report the location of CDBG dollars and increase staff capability to assess impacts.

The Community Development Block Grant program assists disadvantaged citizens and low-to-moderate income communities and improves the economy by investing in. A complete elimination of the program, as proposed by the Trump Administration, would leave millions of poor, homeless, veteran, special needs, and elderly people without vital care, services, and assistance that they need.

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Introduction

Tax reform and budget proposals currently being discussed in Congress will directly impact the lives of working and middle-class families, with the Community Development Block Grant (CDBG) program being one of the most harmed. This was exemplified in a recent poll of U.S. mayors in which mayors responded that they are most concerned with the elimination of the CDBG program, with 63 percent indicating it would have a devastating impact on their city (Quigley, 2017).

Recent tax reform proposals will result in $1.5 trillion less revenue for the federal government, which can only lead to spending cuts for existing programs. Tax reform alone is expected to benefit the wealthy more than the middle class, but the impacts are even more striking when considering specific program cuts. While a final FY 2018 budget has yet to approved, President Trump's budget proposes significant cuts in crucial programs that benefit the middle class.

In May 2017, the Trump Administration proposed a $6.2 billion cut to the U.S. Department of Housing and Urban Development (HUD) in its Fiscal Year 2018 budget. Nearly half of this proposed cut, $3 billion, is the result of eliminating the CDBG program in its entirety. A budget cut of this magnitude would directly impact more than 464,000 people in Illinois, and state and local governments would lose access to $116.2 million dollars in federal funding.

The CDBG program was created by the 1974 Housing and Community Development Act to consolidate eight separate categorical programs into one community development program. At the time of its creation a unique funding model was used in which grantees had the flexibility to invest revenue sources as they saw fit within their community, as opposed to the federal government determining how state and local governments could spend federal funds allocated to them (Theodos et al., 2017). Grantees had to follow fairly broad guidelines, meeting one of three objectives: benefit low- and moderate-income persons, prevent or eliminate slums or blight, or meet urgent community needs (Journal of Housing & Community Development, 1999). Present-day HUD requirements also include a citizen participation clause, and a stipulation that "over a 1, 2, or 3-year period, as selected by the grantee, not less than 70 percent of CDBG funds must be used for activities that benefit low- and moderate-income (LMI) persons" (HUD, 2017).

CDBG funds are distributed to two types of communities, entitlement and non-entitlement. Entitlement communities are "central cities of Metropolitan Statistical Areas (MSAs); metropolitan cities with populations of at least 50,000; and qualified urban counties with a population of 200,000 or more (excluding the populations of entitlement cities)" (HUD, 2017). Non-entitlement communities are those which do not meet the above qualifications; namely, rural areas. Funds for rural areas are allocated to and administered by the state government, while urban funds are provided directly to cities. 70 percent of federal CDBG appropriation goes to urban "entitlement" communities, while 30 percent goes to rural "non-entitlement" areas.

Within Illinois, CDBG funds are used for public infrastructure improvements, housing rehabilitation programs, economic development opportunities, critical health, safety, or public welfare issues, and assistance to businesses locating to or expanding within the state (Illinois Department of Commerce, 2017). Activities funded by CDBG fall into two categories: direct and indirect benefits. A direct benefit activity requires the beneficiary to submit an application or personal record in order to receive the benefit, while an indirect benefit activity does not require this paperwork (North Dakota Department of Commerce, 2017).

This Illinois Economic Policy Institute (ILEPI) and University of Illinois Project for Middle Class Renewal report evaluates the CDBG funding leveraged in Illinois during Program Year (PY) 2015 and critiques the Trump Administration's justifications for proposing a complete elimination of the program. In its *Major Savings and Reform* report for Fiscal Year 2018, the President's Office of Management and Budget writes that the program has not demonstrated results, the allocation formula poorly targets funds to the areas of greatest need, state and local governments are better positioned to address local community and economic development needs, and many aspects of the program have become outdated (White House Office of Management and Budget, 2017). Each of these justifications is incorrect or inadequate. This report provides policy recommendations to address existing shortcomings of the CDBG program, rather than scrapping the program altogether.

Illinois CDBG Program Summary

Figure 1 presents the activities for which CDBG program funds are eligible. CDBG program funds can be used for vital community development activities, such as the acquisition of land, buildings, right-of-way, air rights, and other property; economic development through job training and community programs; housing rehabilitation, purchase, and construction; public facilities and infrastructure improvements; and critical public services such as crime prevention, health services, and child care. Each of these tools of local economic development would be negatively impacted by the Trump Administration's proposed cuts to the CDBG program. Note that the funds may also be used for government administration and city planning, which is not listed in Figure 1.

Figure 1: Eligible CDBG Funding Activities

CDBG Expenditure Type	Eligible Activities
Acquisition	Identification and Appraisal
	Purchase
Economic Development	Special Economic Development
	Technical Assistance to Businesses
	Microenterprise Development
	Commercial Rehabilitation
	Public Facilities and Improvements
	Job Training
Housing	Homeowner Rehabilitation
	Home Purchase
	Rental Housing
	New Construction
Public Facilities and Improvements	Neighborhood and Special Needs Facilities
	Infrastructure, Energy Efficiency, and Handicapped Accessibility
Public Services	Employment Services, Crime Prevention and Public Safety, Child Care, Health Services, Education Programs, and Recreational Services
Note: See Appendix Figure F for detailed definition of each activity.	

Source: HUD, Basically CDBG for States, 2012

In 2015, CDBG funds leveraged by cities, counties, and the State of Illinois directly impacted more than 464,000 people (Figures 2, 3, and 4). The City of Chicago received $64.6 million, 31 cities outside of Chicago received $18.7 million, and 7 counties (including Cook County) received $16.8 million from the CDBG program. The State of Illinois received $16.0 million for community development in rural Illinois.

As depicted in Figure 2, the total number of people assisted directly by the CDBG program in Illinois' urban cities, excluding Chicago, is nearly 167,000 residents. The average amount of funds leveraged by these cities was $603,421 and the average number of people impacted directly was 5,380 per city. Additionally, the city-level average share of people impacted who qualified as low-to-moderate income (LMI) was 97.0 percent, including the 81.7 percent who were low-income or extremely low-income (Figure 2). This indicates that the CDBG program is successful at targeting the neighborhoods and individuals who are most in need.

Figure 2: Illinois Entitlement Cities (excluding Chicago) CDBG Statistics

Cities (PY 2015)	Funds Leveraged During Program Year	# of People Assisted Directly	% of People Impacted LMI	% of LMI Extremely Low or Low
Arlington Heights	$ 509,403	11,365	100%	5%
Aurora	$ 1,224,058	8,421	96%	70%
Berwyn	$ 1,817,977	11,183	100%	13%
Bloomington	$ 384,133	1,082	94%	87%
Champaign	$ 293,390	288	100%	94%
Cicero	$ 745,137	2,165	97%	90%
Danville	$ 873,492	2,820	100%	100%
Dekalb	$ 575,443	7,660	100%	82%
Des Plaines	$ 329,930	450	100%	91%
Elgin	$ 663,382	30,214	89%	78%
Evanston	$ 1,606,466	7,298	86%	78%
Hoffman Estates	$ 147,949	722	85%	64%
Joliet	$ 66,250	-	100%	-
Kankakee	$ 349,209	73	100%	87%
Moline	$ 757,724	-	100%	68%
Mount Prospect	$ 408,796	1,296	100%	93%
Naperville	$ 176,859	13,546	100%	96%
Normal	$ 294,724	67	100%	92%
Oak Lawn	$ 286,445	409	100%	99%
Oak Park	$ 632,171	30,097	92%	85%
Palatine	$ 129,956	2,303	99%	94%
Pekin	$ 296,419	2,060	99%	89%
Peoria	$ 943,746	5,231	100%	88%
Rantoul	$ 196,840	317	97%	90%
Rock Island	$ 502,101	253	100%	66%
Rockford	$ 1,885,353	368	97%	93%
Schaumburg	$ 220,575	308	100%	85%
Skokie	$ 294,236	1,922	97%	87%
Springfield	$ 725,040	8,813	100%	100%
Urbana	$ 363,412	154	89%	87%
Waukegan	$ 1,005,437	15,925	100%	100%
Totals	$ 18,706,055	166,810	-	
Averages	$ 603,421	5,381	97%	82%

Source: HUD Exchange, CDBG Performance Profiles, 2015

Figures 3 and 4 show the CDBG program statistics for the State of Illinois, the City of Chicago, and urban counties, with the state government administrating and distributing funds to rural "non-entitlement" areas. CDBG funds leveraged by urban counties directly impacted nearly 95,000 residents, or an average of over 13,000 people per county. Counties were also effective at targeting their CDBG funds to low-to-moderate individuals, who account for a county-level average of 95 percent of directly impacted people (Figure 3). The City of Chicago leveraged $64.6 million to directly assist more than 193,000 people, all of whom were low-to-moderate income individuals, including 91 percent of extremely poor residents. The State of Illinois, meanwhile, was only marginally less effective at targeting its $16.0 million in funds to directly affect the lives of more than 5,000 rural residents. In "non-entitlement" areas, 87 percent of people impacted had low-to-moderate incomes, including over two-thirds (68 percent) classified as extremely low- or low-income residents (Figure 4).

Figure 3: State Government and the City of Chicago CDBG Statistics

Outliers	Funds Leveraged During Program Year	# of People Assisted Directly	% of People Impacted LMI	% of LMI Extremely Low or Low
Chicago	$ 64,614,253	193,160	100%	91%
Illinois (State gov't)	$ 16,041,314	5,238	87%	68%

Source: HUD Exchange, CDBG Performance Profiles, 2015

Figure 4: Illinois Entitlement County CDBG Statistics

Counties	Funds Leveraged During Program Year	# of People Assisted Directly	% of People Impacted LMI	% of LMI Extremely Low or Low
Cook County	$ 3,959,838	67,688	97%	90%
DuPage County	$ 3,411,366	8,192	90%	79%
Kane County	$ 954,787	3,389	93%	91%
Lake County	$ 1,820,324	7,572	88%	87%
Madison County	$ 2,202,322	5,102	99%	98%
McHenry County	$ 1,304,195	2,440	100%	99%
St. Clair County	$ 3,181,951	521	100%	99%
Totals	$ 16,834,782	94,904		
Averages	$ 2,404,969	13,558	95%	92%

Source: HUD Exchange, CDBG Performance Profiles, 2015

The CDBG program has widespread impacts that extend beyond just those who are directly assisted. When federal CDBG program funds are leveraged for job training and neighborhood revitalization projects by community development organizations, businesses indirectly benefit with skilled workers and higher commercial property values. Similarly, CDBG funds invested in road and sewer line improvements have positive impacts that spill over to other neighborhoods.

Figure 5 provides data to exemplify the amount of people in Illinois who benefit indirectly from activities supported by CDBG funds in non-Chicago urban cities in Illinois, reported by grantees as "persons for whom services and facilities were available." Whereas CDBG funds leveraged by large cities in Illinois excluding Chicago directly assisted nearly 167,000 residents, the CDBG indirectly benefits 1.4 million people in these municipalities – over 8 times the number of directly-affected individuals. Though not shown, the CDBG program has similar indirect effects in the City of Chicago and in rural towns and counties in Illinois.

Figure 5: People Indirectly Impacted by CDBG Program in "Entitlement" Cities (Excluding Chicago)

Cities (PY 2015)	# of People Indirectly Benefitted	Cities (PY 2015)	# of People Indirectly Benefitted
Arlington Heights	-	Naperville	-
Aurora	12,699	Normal	8,307
Berwyn	28,824	Oak Lawn	4,635
Bloomington	2,195	Oak Park	36,661
Champaign	656,000	Palatine	-
Cicero	3,460	Pekin	-
Danville	43,255	Peoria	40,845
Dekalb	49,691	Rantoul	-
Des Plaines	1,385	Rock Island	43,335
Elgin	1,820	Rockford	153,460
Evanston	75,737	Schaumburg	-
Hoffman Estates	3,400	Skokie	2,705
Joliet	-	Springfield	870
Kankakee	37,700	Urbana	25,102
Moline	125,040	Waukegan	15,185
Mount Prospect	19,880		
	Average	75,792	
	Total	1,061,086	
A dash indicates no data was reported.			

Source: HUD Exchange, CDBG Performance Profiles, 2015

Comparison between Urban "Entitlement" Areas and Rural "Non-Entitlement" Areas in Illinois

In order to understand how CDBG program funds are leveraged in Illinois' urban and rural areas, Figure 6 displays a comparison of CDBG statistics for non-Chicago cities, urban counties, the City of Chicago, and rural communities for 2015. Areas outside of the City of Chicago prioritize public facilities and improvements, with more than one-third of all CDBG funds invested in these projects in both cities and counties. Similarly, three-fifths of all CDBG program funds spent in rural communities in Illinois (60 percent) are invested in public facilities and improvements. Public facilities and improvements expenditures mainly consist of investments in public schools, libraries, parks, homeless shelters, domestic violence shelters, nursing homes, streets, curbs, water lines, sewer lines, and energy efficiency projects. Without the CDBG program, these vital infrastructure investments in less-populous towns with smaller tax bases would not be funded.

Conversely, in the City of Chicago, the shares of CDBG funds leveraged for public services (40 percent) and housing purposes (33 percent) are substantially higher than other areas in Illinois. Eligible public service activities must be new services and "must provide a quantifiable increase in the level of an existing service that was provided by an outside entity using government funds," such as employment services, crime prevention and public safety, child care services, health services, substance abuse services, and educational programs (HUD Office of Block Grant Assistance, 2012). Likewise, CDBG funds leveraged for housing activities are used to rehabilitate existing homes, assist low-to-moderate income persons in buying or renting homes, and help nonprofit organizations in new neighborhood revitalization projects.

Chicago's higher population density and low-to-moderate income share compared to other CDBG areas mean that public services and housing are often the most effective activities at impacting the highest amount of needy persons.

Figure 6: CDBG Funding, Persons Impacted, Funding Focus % for PY 2015

CDBG Statistic or Expenditure Type	Cities (Non-Chicago)	Urban Counties	City of Chicago	State of Illinois (Rural)
Funding	$18,706,055	$16,834,782	$64,614,253	$16,041,314
Persons Directly Impacted	166,810	94,904	193,160	5,238
LMI Impacted (Unit Level Average)	97%	95%	100%	87%
Acquisition	6%	5%	4%	2%
Economic Development	1%	0%	0%	3%
Housing	29%	17%	33%	28%
Public Facilities & Improvements	36%	38%	10%	60%
Public Services	12%	12%	40%	0%
General Administration & Planning	16%	18%	11%	8%

Source: HUD Exchange, CDBG Performance Profiles, 2015

Another notable difference is that administration and planning costs are significantly lower for the City of Chicago and for rural areas than for other "entitlement" cities and counties. The share of CDBG funds used by the City of Chicago on general administration and city planning was 11 percent and it was 8 percent for the State of Illinois. As a percentage, "entitlement" cities expend double the amount of the State of Illinois on administration and planning, at 16 percent, and urban counties are even higher at 18 percent. The primary reason for this disparity is that mid-sized cities and suburban municipalities have lower staffing levels and less experienced staff to dedicate to handling the administration of CDBG funds. This means they require more financial support in order to administer economic development programs compared with the City of Chicago and the State of Illinois.

The Economic Impact of the CDBG Program in Illinois

This section focuses on the economic impact of the CDBG program in the Chicago region and the rest of the State of Illinois. As discussed previously, the Community Development Block Grant (CDBG) program leveraged $116.2 million in total, and directly impacted more than 464,000 Illinois residents in 2015. In the seven-county Chicago metropolitan area, $86.3 million was leveraged and over 424,000 residents were directly impacted – with the vast majority of community development assistance located in low-income neighborhoods in the City of Chicago.[1] Illinois communities located outside of the Chicago area accounted for $29.9 million in funds leveraged (25.7 percent) and about 40,000 directly-assisted residents (8.6 percent). The Chicago area accounts for nearly three-quarters of all CDBG funding on housing affordability and public services in the state, while federal dollars for public facilities and improvements are proportionately more important in communities outside of the Chicago area. About half of all CDBG funding on public facilities and improvements in Illinois is spent in cities and counties outside of the Chicago region (Figure 7).

[1] This report uses the seven-county area as defined by the Chicago Metropolitan Agency for Planning, which covers the northeastern Illinois counties of Cook, DuPage, Kane, Kendall, Lake, McHenry, and Will (CMAP, 2017).

Figure 7: Location of Direct Impacts, Funds Leveraged, and CDBG Program Spending by Purpose, 2015

PY2015 CDBG Program Metrics	Illinois Total	Chicago Region	Chicago Region %	The Rest Of Illinois	Non-Chicago Areas %
People Assisted Directly	464,390	424,343	91%	40,047	9%
Funds Leveraged	$116.2 million	$86.3 million	74%	$29.9 million	26%
Spending by CDBG Purpose					
Acquisition	$6.0 million	$4.1 million	67%	$2.0 million	33%
Economic Development	$4.3 million	$3.1 million	72%	$1.2 million	28%
Housing	$33.7 million	$25.0 million	74%	$8.7 million	26%
Public Facilities and Improvements	$28.0 million	$14.4 million	52%	$13.6 million	49%
Public Services	$13.4 million	$10.0 million	74%	$3.4 million	26%
Administration and Planning	$13.5 million	$10.0 million	74%	$3.4 million	26%

Source(s): HUD Exchange, CDBG Performance Profiles, 2015

Information about leveraged and allocated expenditures is incorporated into an economic impact analysis to estimate the effect of the Community Development Block Program in Illinois. Economic impact analyses are used by policy experts and economic development professionals to determine effects on everyone who benefits or loses as a result of a policy change or a new or eliminated program, parsing out the impact from what would have otherwise occurred in the absence of the change. The analysis accounts for the interrelationship between industries and households in a regional market, following a dollar as it cycles through the economy. This report uses IMPLAN, an industry-standard software which uses U.S. Census Bureau data to capture all transactions in Illinois while also accounting for business and household taxes (IMPLAN, 2017). Considered the "gold standard" in economic impact analyses, the IMPLAN software uses multipliers to estimate how much an extra dollar spent on a program will add to the local economy (Vowels, 2012).

Based on the $116.2 million in funds leveraged, the CDBG program boosts the Illinois economy by $168.2 million and creates over 1,800 full-time equivalent jobs for Illinois workers annually (Figure 8). The majority of these jobs are in private construction and public services directly supported by the CDBG expenditures. However, many are saved or created indirectly by purchases of goods and supplies to redevelop the community and others are induced by the consumer spending of workers directly employed from CDBG funds, who earn middle-class salaries of over $62,000 on average across the state. The federal CDBG program generates nearly $4 million in state tax revenues and almost $1 million in local tax revenues every year in Illinois (Figure 8).

Figure 8: Estimated Economic and Tax Impacts of the CDBG Program in Illinois, 2015, IMPLAN

PY2015 CDBG Program Metrics	Employment (FTE Jobs)	Income Per Job	GDP (Value Added)	State Tax Revenue	Local Tax Revenue
Total Illinois	**1,837**	**$62,428**	**$168.2 million**	**$3.9 million**	**$0.8 million**
Chicago Region	1,047	$68,745	$105.0 million	$2.3 million	$0.3 million
Non-Chicago Areas with CDBG Funds	465	$52,931	$35.6 million	$0.8 million	$0.2 million
Spillover to the Rest of Illinois	325	$55,677	$27.6 million	$0.8 million	$0.3 million

Source(s): HUD Exchange, CDBG Performance Profiles, 2015; IMPLAN, 2017

In the seven-county Chicago area alone, the CDBG program supports over 1,000 jobs paying nearly $69,000 in salaries plus benefits and grows the regional economy by $105.0 million every year. In Illinois communities outside of the Chicago region that receive CDBG funds, nearly 500 jobs paying about $53,000 are created and $35.6 million in economic activity is stimulated annually from the federal program. Furthermore, more than 300 jobs and $27.6 million in local economic development occurs every year in the rest of Illinois, even though CDBG funds are not directly invested in these communities. This is because CDBG funds “spill over” into other municipalities as workers employed on projects receiving funds spend money in other parts of the state and because CDBG projects require materials manufactured from other parts of the state. Ultimately, if the Congress terminates the CDBG program, Illinois would lose more than 1,800 jobs, the state economy would shrink by nearly $170 million, and governments would lose almost $5 million in tax revenues every year– with negative consequences for all regions in the state.

Figure 9 puts the economic and social impacts of the CDBG program on Illinois in context. In 2015, there were 4.87 million households in the Illinois. Dividing the total amount of funds leveraged by the number of households yields an estimate of less than $24 per household. In other words, the CDBG program costs the average Illinois household about $2 per month in federal taxes. For just $2 per month, Illinois households directly assist over 464,000 low-income people and save or create more than 1,800 full-time jobs every single year. The CDBG program supports nearly 4,000 low-income Illinois residents and 16 full-time jobs per $1 million leveraged in the state. Finally, even after accounting for CDBG funds leaking out to other states or countries (e.g., to purchase goods or supplies), the CDBG program returns $1.45 in economic activity in Illinois per dollar leveraged. Put differently, every $2 contributed per month by the average Illinois household towards the CDBG program boosts the state’s economy by about $3, redeveloping communities and helping hundreds of thousands of low-income and moderate-income residents in the state. All of these positive economic outcomes would vanish if Congress cuts the CDBG program entirely.

Figure 9: The Economic and Social Impacts of the CDBG Program in Illinois Put in Context, 2015

PY2015 CDBG Program Metrics	Employment (FTE Jobs)
Funds Leveraged in PY2015	$116.2 million
Number of Households in Illinois (2015)	4.87 million
CDBG Cost Per Illinois Household Per Year	$24
CDBG Cost Per Illinois Household Per Month	$2.0
People Assisted Directly in PY2015	464,390
People Assisted Directly Per $1 Million Leveraged	3,997
Full-Time Jobs Created by CDBG	1,837
Full-Time Jobs Created Per $1 Million Leveraged	16
Value Added to the Illinois Economy (GDP)	$168.2 million
GDP Return Per Dollar Leveraged	$1.45

Source(s): HUD Exchange, CDBG Performance Profiles, 2015

The Projected Consequences of Cutting the CDBG Program to the United States

In order to give the full-scale impact of entirely cutting the CDBG program, Figure 10 shows the projected reduction in services provided and estimated people impacted, based on a $0.9 billion cut that occurred in 2015. The National Association of Housing and Redevelopment Officials (NAHRO) collected survey information from 161 grantees in 40 states about how they were impacted by the 2015 CDBG funding cuts (Hsu, 2016). These reductions only represent 13 percent of total CDBG grant recipients, meaning the actual impact is much higher. The final column in Figure 10 extrapolates NAHRO's findings to estimate the projected impact of the removal of all 1,238 CDBG funding to all grantees. If the CDBG program is eliminated completely, nearly 37,000 American jobs would be lost, 23.9 million low-to-moderate income people would lose assistance, and millions of people of color, veterans, homeless people, children, and elderly individuals would lose services provided by community nonprofits and local governments (Figure 10).

Figure 10: Projected National Impact of Reducing CDBG Funding, NAHRO Estimates

Type of Service/Person Impacted	2015 Projected Reduction*	Trump Admin Projected Reduction*	Projected Reduction for All Grantees*
LMI Persons Assisted	936,671	3,109,748	23,882,862
Special Needs Served	178,757	593,473	4,557,874
Elderly Assisted	163,972	544,387	4,180,892
Children/Youth Served	67,412	223,808	1,718,844
Homeless Assisted	56,698	188,237	1,445,663
Homebuyers	12,479	41,430	318,185
Veterans served	5,744	19,070	146,458
Jobs Created	2,341	7,772	59,690
Businesses	1,273	4,226	32,458
City and County Public Projects	439	1,457	11,193
	**($0.9 billion cut to 13% of Grantees)*	**($2.99 billion cut to 13% of Grantees)*	**($2.99 billion cut to all grantees)*

Source(s): HUD Exchange, CDBG Performance Profiles, 2015; Hsu, 2016

Five Policy Recommendations to Improve the CDBG Program

The Community Development Block Grant program directly impacts 464,000 low-income people, supports more than 1,800 full-time jobs in Illinois, and grows the state's economy by $168.2 million per year. In addition, the CDBG program successfully targets the neediest populations in the state, with over 95 percent of all leveraged funds directly assisting low-to-moderate income residents in urban areas. Given the fiscal condition of state and local governments in Illinois, it is also reasonable to conclude that these impacts would disappear if the CDBG program is eliminated completely, as state and local governments would be unable to fill the gap. Thus, the program adequately targets intended beneficiaries and has demonstrable positive results that would not occur in the absence of the CDBG program, invalidating three claims used by the Trump Administration to justify cutting the program. The Administration's other assertion – that many aspects of the program are outdated – is fair but incomplete, and does not merit scrapping the CDBG program entirely.

In lieu of a complete cut, Congress and the Trump Administration should consider the five following reforms to improve the CDBG program.

1. Redefine or Rename "Entitlement" and "Non-entitlement" Areas

In a study of 26 states' non-entitlement programs, Wiley (2014) found that many "non-entitlement" service areas are not entirely rural, which is the geographic population that "non-entitlement" funds are intended to benefit. While the majority of each state's rural population lives in "non-entitlement" areas, many consist of majority suburban and exurban populations, particularly in the Northeastern states (Wiley, 2014). Moreover, there is a gap in the public perception of the words "entitlement" and "non-entitlement" and their definition in the CDBG program. This creates unnecessary division between the two types of areas and perpetuates an idea that one group of low-income people is more deserving of government assistance than another. Within Illinois, the perception of "the rest of Illinois versus Chicago" shows the negative impact that this type of rhetoric and politicization can have. Effective long-running governmental policies require the support of the public. Simply removing this delineation would increase the likelihood of public support for the CDBG program, and clear up any preventable misconceptions.

2. Use a Formula in Rural Areas to Reduce Administrative Costs and Make Funding Access Equitable

Currently, "non-entitlement" funds are administered directly by the state, and according to Collins and Gerber (2006), the competitive grant application process that Illinois and many other states use creates equity issues. The funds are not automatically divided equitably; instead rural towns must apply to receive them. Smaller, poorer towns that are in the largest need of CDBG funds are at a disadvantage in attempting to acquire CDBG funds for multiple reasons. First, small local governments have less capacity to deal with the transaction costs. Specifically, the inability to make an investment in "administrative capacity (e.g., staff with technical expertise or other relevant human resource investments)" means they will be outmatched during the application process by larger cities, and therefore less likely to receive funds (Collins & Gerber, 2006). Second, HUD and state governments currently use methods that reduce the search, monitoring, and enforcement costs that they incur while administrating these funds. This means that states which use the competitive application process give grant money to communities they believe will best be able to implement plans as well as monitor and report progress. The competitive process creates a "systematic bias against groups of low- to moderate-income persons living in areas with relatively less governmental capacity" (Collins & Gerber, 2006).

While the federal block-grant style funding of the CDBG should not be adjusted, given that the flexibility for grantees is an integral facet of the program, the state should institute and administer "formula funding for all small general purpose governments" to further reduce administrative costs (Collins & Gerber, 2006). This method of funding would distribute funds to small local governments ("non-entitlement" communities) according to a formula, rather than the current competitive grant application process. The formula would be based on metrics assessing community needs, such as poverty rates, unemployment rates, and other measures of inequality. Accordingly, funds would only be distributed to impoverished rural areas where the investment in taxpayer dollars is needed most. Increasing the equality of opportunity to receive the funds would address not only the "outdated" criticism, but concerns that the current formula poorly targets funding to the areas of greatest need (White House Office of Management and Budget, 2017).

3. Standardize HUD Accounting Rules

One of the other major criticisms by academics who have evaluated the CDBG program in the past two decades is that the program could target the neediest communities even more effectively than it already does (Theodos, Stacy, Ho, 2017; Galster, Rohe, 2014; Brooks, Sinitsyn, 2014; Pooley, 2014). The neediest areas – specifically very low-income populations (anyone with income under 50 percent of the local median) – are not receiving funding proportional to their need. HUD requirements for CDBG funding necessitate that 70 percent of funds benefit low-to-moderate income (LMI) populations, either through area-benefit or direct-benefit activities. The HUD rules of calculating area-benefit activities mean that any activity in an area with at least 51 percent LMI persons counts towards the HUD requirement (Rich, 2014). In his study of five Chicago suburban cities between 1983 and 1989, Rich (2014) found differences of more than 40 percent between this method of LMI percentage measurement and a proportionate method. A true measurement of how many LMI persons CDBG funds are impacting is vital to not only fulfilling the national LMI objective of the CDBG program, but also for ensuring the program continues to be effective with the funding it receives.

4. Incentivize Cities to Geographically Target CDBG Funds to the Poorest Neighborhoods

Geographic targeting means to channel funding to specifically-defined communities (Thomson, 2008). HUD focused on geographic targeting during the Carter Administration and, in 1978, began requiring communities to establish specific Neighborhood Strategy Areas (NSAs). NSAs were areas in communities that were in the most desperate need of assistance. Public service funding through the CDBG was limited to NSAs, encouraging "local jurisdictions to fund physical development activities in a concentrated and coordinated manner" (Rich, 2014). By 1981, fully 50 percent of CDBG funds went to NSAs. The effectiveness of geographic targeting is backed up by Pooley's (2014) findings that,

> "Community Development Block Grants and similar public subsidies can play a key role … in revitalizing weaker neighborhoods. If deployed at the right scale (to be sufficiently visible to the market) in a select number of locations, program dollars can have a domino effect for nearby properties as neighboring owners start to feel sufficiently confident in subsidized areas and their futures to make investments of their own."

The Reagan Administration removed the NSA requirement in 1981, in order to "promote program flexibility and increase local discretion" (Rich, 2014) However, in 1995, the Clinton Administration issued regulations concerning Neighborhood Revitalization Strategy Areas (NRSAs) which allowed for greater coordination while permitting more flexibility in using CDBG funds for economic development and housing activities. The new NRSAs were an important step forward in geographic targeting relative to the Reagan years, but between 1995 and 2012 only 52 percent of CDBG urban "entitlement" communities identified one or more local target areas (Rich 2014). Because local governments are not required to have NRSAs as they were under the NSA framework, there is less incentive for communities to establish these target areas. Galster and other researchers (2004) recommend increasing geographic targeting, concluding that "census tracts that received above-average CDBG spending per poor person were more likely to have positive outcomes related to neighborhood vitality."

5. Require Cities to Report the Location of CDBG Dollars and Increase Staff to Assess Impacts

HUD currently requires that "entitlement" communities provide consolidated spending plans for CDBG dollars, but this only describes the activity that a grantee plans to spend the money on, not the location of the activity. The plan does not have to provide in-depth justification, it merely requires that "at least 51 percent of residents are LMI persons" (Theodos, Stacy, and Ho 2017). According to Pooley (2014), if a consolidated plan also detailed the census tract or block where the money would be invested, the impact and effect of the public investment could be more effectively measured. Grantees have a deeper level of knowledge of their cities than HUD administrators, but many do not have the administrative or technical knowledge necessary to most effectively and efficiently apply CDBG funds. HUD's field office presence has been severely diminished in the past decades, and a larger research staff would provide grantees with assistance on issues they face, providing higher levels of guidance on how and where to best apply CDBG funds (Theodos, Stacy, Ho 2017).

Conclusion

The Community Development Block Grant (CDBG) program provides federal money for important infrastructure projects, economic development initiatives, housing rehabilitation programs, and critical public services to help low-to-moderate income people. If Congress' proposed tax reforms and the Trump Administration's proposal to entirely cut the CDBG program are passed by Congress, first and foremost, middle-class working families will be negatively impacted.

In Illinois, this would result in more than 460,000 low-to-moderate income people losing direct assistance, eliminate over 1,800 full-time jobs paying an average income of $62,000, reduce economic output by nearly $170 million; and reduce state and local tax revenues by nearly $5 million dollars. Nationwide, the projected losses from cutting the CDBG program would be significant, resulting in nearly 24 million low-to-moderate income people losing direct assistance – including 4.5 million special needs persons, 4 million elderly Americans, and about 150,000 veterans – and the elimination of about 60,000 jobs. More than 11,000 city and county projects would also shut down.

The Administration has justified its proposal to cut the CDBG program by arguing that the program has not demonstrated results, that it poorly targets those in need, that state and local governments are better positioned to address local community and economic development needs, and that many aspects of the program have become outdated. These justifications are either incorrect or inadequate. The economic consequences of eliminating the program demonstrate that CDBG funds have demonstrable results, with cuts severely impacting low-income and middle-class families. Additionally, state and local governments – especially in Illinois – are not in a position to fill the funding gap left from a $3 billion cut in CDBG investments.

In lieu of a complete cut, Congress and the Trump Administration should consider reforming some aspects of the CDBG program. Suggested reforms include using a formula in rural areas to reduce administrative costs and make funding equitable, standardizing HUD accounting rules, and further incentivizing cities to geographically target CDBG funds to the poorest neighborhoods.

The Community Development Block Grant program assists disadvantaged citizens and improves the economy by investing in low-to-moderate income communities. A complete elimination of the program, as proposed by the Trump Administration, would leave millions of poor, homeless, veteran, special needs, and elderly people without vital care, services, and assistance that they need.

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Appendix

Figure A: "Entitlement" Cities (except Chicago) Expenditure Type

Cities (PY 2015)	% Acquisition	% Economic Development	% Housing	% Public Facilities and Improvements	% Public Services	% General Administration and Planning
Arlington Heights	0%	0%	27%	50%	9%	14%
Aurora	0%	0%	25%	37%	13%	24%
Berwyn	0%	0%	6%	66%	9%	18%
Bloomington	27%	0%	33%	30%	9%	1%
Champaign	0%	0%	67%	0%	14%	19%
Cicero	0%	0%	39%	7%	26%	28%
Danville	27%	20%	19%	15%	0%	19%
Dekalb	0%	0%	11%	71%	10%	8%
Des Plaines	0%	0%	29%	47%	12%	13%
Elgin	0%	0%	12%	59%	16%	13%
Evanston	1%	0%	43%	22%	16%	19%
Hoffman Estates	0%	0%	18%	49%	0%	33%
Joliet	9%	0%	0%	77%	13%	0%
Kankakee	12%	0%	45%	0%	16%	26%
Moline	1%	0%	63%	25%	0%	11%
Mount Prospect	0%	0%	10%	61%	13%	16%
Naperville	0%	0%	11%	74%	6%	9%
Normal	20%	0%	11%	42%	24%	3%
Oak Lawn	0%	0%	0%	89%	3%	7%
Oak Park	0%	0%	18%	45%	18%	19%
Palatine	0%	0%	0%	76%	10%	14%
Pekin	0%	0%	56%	0%	18%	26%
Peoria	31%	0%	27%	10%	18%	14%
Rantoul	33%	0%	11%	15%	18%	23%
Rock Island	0%	2%	59%	0%	7%	32%
Rockford	16%	9%	60%	0%	3%	13%
Schaumburg	0%	0%	31%	46%	12%	11%
Skokie	0%	0%	17%	51%	14%	17%
Springfield	0%	0%	44%	27%	12%	18%
Urbana	7%	0%	47%	4%	18%	24%
Waukegan	0%	0%	58%	12%	12%	18%
Averages	6%	1%	29%	36%	12%	16%

Source: HUD, CDBG Performance Profiles, 2015

Figure B: "Entitlement" Counties Expenditure Type

Counties	% Acquisition	% Economic Development	% Housing	% Public Facilities and Improvements	% Public Services	% General Administration and Planning
Cook County	1%	2%	0%	54%	19%	24%
DuPage County	12%	0%	9%	51%	13%	15%
Kane County	0%	0%	45%	31%	10%	14%
Lake County	0%	0%	16%	43%	19%	21%
Madison County	21%	0%	26%	26%	7%	20%
McHenry County	0%	0%	15%	54%	14%	17%
St. Clair County	2%	0%	6%	77%	1%	15%
Averages	5%	0%	17%	48%	12%	18%

Source: HUD, CDBG Performance Profiles, 2015

Figure C: State Government and City of Chicago Expenditure Type

Outlier	% Acquisition	% Economic Development	% Housing	% Public Facilities and Improvements	% Public Services	% General Administration and Planning
Chicago	4%	0%	33%	10%	40%	11%
Illinois	2%	3%	27%	60%	0%	8%

Source: HUD, CDBG Performance Profiles, 2015

Figure D: "Entitlement" Counties Indirect Benefit Count

Counties	# of People Indirectly Benefitted
Cook County	48,271
DuPage County	14,155
Kane County	4,610
Lake County	7,852
Madison County	321,852
McHenry County	196,932
St. Clair County	76,606
Average	95,754
Total	670,278

Source: HUD, CDBG Performance Profiles, 2015

Figure E: State Government and City of Chicago Indirect Benefit Count

Outliers	# of People Indirectly Benefitted
Chicago	84,150,307
Illinois (State gov't)	196,046
Total	84,346,353

Source: HUD, CDBG Performance Profiles, 2015

Figure F: CDBG Eligible Activity Details

CDBG Expenditure Type	Eligible Activities	Details of Activities
Acquisition	Identification & Appraisal	Costs of identifying properties, appraisals, preparation of legal documents, and recordation fees.
	Purchase	Land, Air rights, Easements, Water rights, Rights-of-way, Buildings.
Economic Development	Special Economic Development	Economic development projects undertaken by nonprofit entities and public entities, Assisting private for-profit businesses with loans/grants/technical assistance.
	Technical Assistance to Businesses	Technical assistance and training on business planning and accounting. Eligible categories: Special economic development projects, microenterprise owners, public services, and nonprofit development org.
	Microenterprise Development	Microenterprise: commercial enterprises that have five or fewer employees. Financial support, technical assistance, general support, training.
	Commercial Rehabilitation	Bring commercial structures up to code or improve their facades.
	Public Facilities and Improvements	Public work projects that support economic endeavors such as: off-site water, sewers, roads, drainage, and railroad spurs.
	Job Training	Providing skill building classes to employees or potential employees. Eligible categories: Special economic development projects, microenterprise owners, public services, and nonprofit development organizations.
Housing	Homeowner Rehabilitation	Provide existing homeowners with funding for repair, rehab, and reconstruction. Homeowner counseling for LMI persons. Loans to refinance existing debt if relevant to community development objectives.
	Home Purchase	Direct homeownership assistance to LMI households, Individual Development Accounts (dedicated savings accounts providing funding for LMI homebuyers), and homebuyer counseling.
	Rental Housing	Acquisition of property, rental property rehabilitation, conversion of old buildings to rental housing, development of facilities for special needs and homeless persons, new rental housing construction.
	New Construction	Only eligible if: funds allocated to nonprofit development org. if they are undertaking a neighborhood revitalization, community economic development, or energy conservation project.
Public Facilities and Improvements	Facilities	Neighborhood facilities (public schools, libraries, parks), facilities for special needs persons (homeless or domestic violence shelters, nursing homes).
	Improvements	Infrastructure (streets, curbs, water/sewer lines), energy efficiency, handicapped accessibility, and architectural design features (sculptures, fountains).
Public Services	Services	Employment services, crime prevention and public safety, child care, health services, substance abuse services, fair housing counseling, education programs, energy conservation, services for senior citizens/homeless persons, welfare services, down payment assistance, and recreational services.
	Requirements	Must be a new service, and must provide a quantifiable increase in the level of an existing service that was provided by an outside entity using government funds.

Source: HUD, Basically CDBG for States, 2012