

## City Faces New Community Development Block Grant Cuts

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NEW YORK CITY DEPENDS ON ITS federal Community Development Block Grant (CDBG) allocation to fund a range of housing, social service, economic development, and other programs. Since peaking in 2001, however, the total appropriations for CDBG—as well as New York City's grant—have fallen markedly. Although appropriations for federal fiscal year 2006 are still being debated, it seems likely that the grant amount will fall at least another 6 percent to 9 percent—with potentially significant impacts on city services that rely heavily on CDBG funding.

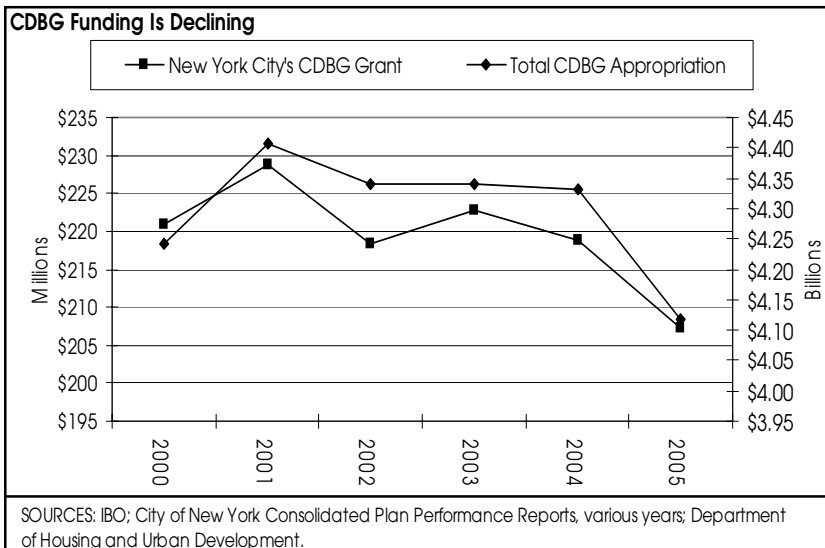
The city typically receives about 5 percent of the total Community Development Block Grant appropriation. In federal fiscal year 2001, Congress appropriated \$4.4 billion for CDBG, and New York City received \$228.7 million. In 2005, the total appropriation had fallen to \$4.1 billion, and the city received \$207.2 million.

President Bush proposed eliminating CDBG—managed by the federal Department of Housing and Urban Development—beginning in federal fiscal year 2006, and replacing it with a new block grant program called the Strengthening America's Communities Initiative. Under this proposal, 18 separate grant programs, including CDBG, would have been consolidated into one grant program managed by the Department of Commerce, and cut the total money available by about 34 percent.

To date, both the House and the Senate have rejected the proposal, and have left CDBG as an independent program. In order to stay within federal spending caps, however, both houses of Congress have proposed cuts to CDBG. The House bill allocates \$3.9 billion for CDBG, a cut of \$256.9 million (6.2 percent) relative to 2005. The Senate cuts CDBG to \$3.8 billion, a drop of \$349.4 million (8.5 percent) relative to 2005. These cuts would translate to a loss of \$13 million to \$18 million for New York City, assuming the city continues to receive its historical share of total funding. Various proposals to offset the costs of Hurricane Katrina have included additional cuts to CDBG, which, if implemented, would further reduce the city's grant.

*CDBG in New York City.* The city currently uses about half of its CDBG grant for housing programs. Historically, up to 65 percent of the available funds were used for housing, primarily to maintain the city-owned housing stock. As the city has sold these buildings to private owners, the funding has been shifted to other needs, particularly social services.

Annual spending typically exceeds the city's CDBG grant each year. Unexpended funds from



conditions such as lack of heat and hot water or peeling lead paint. Essentially all of the funding for the repair program comes from CDBG.

*Public Services.* The city's use of CDBG funds for what the federal housing department terms public services has almost doubled in the last several years. Between 1998 and 2001, the city spent an average of \$26.9 million in CDBG funds on public service programs each year. In the years 2002 through 2004, CDBG spending on public services, such as child care, senior programs, and recreation centers, averaged \$51.1 million.

prior years are rolled over and used at later dates. In addition, some CDBG-funded programs generate revenue, which becomes part of the total program spending (see table on program spending by category). For example, 2004 spending includes \$22.1 million in payments made by owners of buildings where the Department of Housing Preservation and Development (HPD) performed emergency repairs,

*Housing.* The city has traditionally used the CDBG money to fund the maintenance and privatization of the city-owned housing stock. HPD has privatized 95 percent of these units since 1994, and is no longer taking ownership of new units. As a result, the funding needed to maintain the city-owned housing stock has fallen dramatically. Spending on privatization has remained relatively constant—with some growth in 2004—but will fall as the remaining units are returned to private ownership.

CDBG spending on preservation of privately owned housing, on the other hand, has increased 72 percent since 1998. The largest component of the preservation spending—and the area that has seen the largest increase—is housing code enforcement. HPD uses CDBG funds to pay inspectors who respond to complaints and issue violations, particularly for lead paint inspections. The growth in CDBG spending on code enforcement has not supplanted city spending in this program area, which has also grown.

CDBG funding is also critical to HPD's Emergency Repair Program. Through the program, HPD makes emergency repairs when a building owner fails to do so for

After the September 11, 2001 terrorist attacks, the city applied for and received a waiver that allowed it to increase CDBG spending on public service programs from 15 percent to 25 percent of funds. In addition, the city was exempted from normal CDBG rules that require municipalities to use CDBG dollars to expand services, rather than support existing programs, thereby allowing New York City to substitute CDBG funding for city funds. The waiver began July 1, 2002, and has been renewed three times; the current extension runs through June 30, 2006. As a result, the city increased its use of CDBG funds for child care programs from \$2.8 million in calendar year 2001, to \$12.2 million in 2002, and over \$20 million in 2003 and 2004. Despite this increase, CDBG still accounts for only about 5 percent of the total budget for child care. Beginning in 2002 and continuing through 2005, the city also used \$6 million annually for services such as food and medical care to homeless families living in shelters. Again, CDBG funds account for a very small share—about 2 percent—of total expenditures on homeless services.

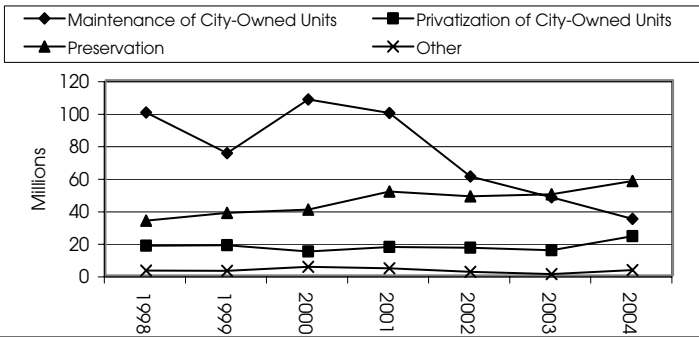
The city had CDBG funds available to support these public service programs without cutting into the resources needed for existing housing programs because of the reduction in the city

	2000	2001	2002	2003	2004
Housing	\$168.4	\$173.1	\$128.4	\$114.2	\$119.9
Public Services	22.9	31.9	44.7	56.2	52.8
Planning & Administration	25.3	30.4	36.5	34.1	35.3
Public Facilities & Infrastructure	29.5	31.1	45.1	36.6	31.4
Economic Development	3.9	5.4	7.0	5.6	5.0
<b>TOTAL</b>	<b>\$250.0</b>	<b>\$271.9</b>	<b>\$261.7</b>	<b>\$246.8</b>	<b>\$244.4</b>

NOTES: Calendar Years. Spending may exceed appropriations because of the inclusion of unexpended funds from prior year and program income.

SOURCES: IBO, City of New York Consolidated Plan Performance Reports, various years.

### City's Changing Use of CDBG Funds for Housing



SOURCES: IBO. City of New York Consolidated Plan Performance Reports, various years.

owned housing stock. Prior to the waiver and the subsequent direction of CDBG funds to child care and other social services, many housing advocates had hoped that the money once used for maintenance of the city-owned housing stock would be entirely redirected to new housing initiatives. Instead, a significant portion of these savings have been used to help balance the budget by replacing city funds in other program areas.

*Other Uses of CDBG Funds.* CDBG funds are also spent on economic development initiatives, planning and administration, and improvements to public facilities. Economic development programs include grants to businesses to help with security and façade improvement, and garbage and graffiti removal. CDBG funds are used to support planning and policy analysis at the housing and city planning departments and the Economic Development Corporation. The final category of CDBG spending, public facilities and infrastructure, includes funds for vacant lot cleaning, code

violation removal in schools, and rehabilitation of senior centers, among other programs.

*Conclusion.* New York City faces a potential cut of at least \$13 million in its CDBG grant for federal fiscal year 2006. In the recent past, as New York City has needed fewer block grant dollars for maintenance of city-owned housing, the city has been able to absorb CDBG cuts without decreasing the funding for other programs. But a cut of at least \$13 million may prove too steep in the short-term to avoid reductions to some of the programs now receiving CDBG dollars.

While it is too early to predict how the funding reduction would be applied, and any eventual cut will likely be spread among programs, measuring the likely loss of funding against specific programs makes it clear that services could be affected. This funding represents, for example, almost two-thirds of the funding for the Emergency Repair Program at HPD—which could pay for the repair of almost 9,000 apartments—or the bulk of the operating support given to tenants converting their city-owned buildings to tenant cooperatives. Alternatively, the city could maintain CDBG spending on housing, but cut close to two-thirds of the CDBG funds spent on child care, thereby serving 3,500 fewer children. CDBG is a critical funding stream for the city, and the proposed cuts, combined with drops in funding over recent years, could threaten real reductions in city services.

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