



STIMULATING SMART INVESTMENTS AND JOB CREATION IN LOW-INCOME COMMUNITIES:

A USER-FRIENDLY GUIDE TO THE FEDERAL CDBG PROGRAM
FOR GRASSROOTS ORGANIZATIONS AND LOCAL POLICY MAKERS



Advancement Project (AP) is a next generation, multi-racial civil rights organization. AP tackles inequity with innovative strategies and strong community alliances. With a national office in Washington, DC and two offices in California, AP combines law, communications, policy, and technology to create workable solutions and achieve systemic change. AP aims to inspire and strengthen movements that expand opportunity for all.



Community Voices Heard (CVH) is an organization of low-income people, predominantly women with experience on welfare, working to build power in New York City and State to improve the lives of families and communities. CVH works to accomplish this through a multi-pronged strategy, including public education, grassroots organizing, leadership development, training low-income people about their rights, political education, civic engagement and direct-action issue campaigns. With chapters in NYC, Yonkers, Newburgh and Poughkeepsie, CVH works on issues of welfare reform, job creation, public housing and other economic justice issues that affect low-income people, particularly low-income women of color.



People United for Sustainable Housing (PUSH) Buffalo works to mobilize residents to create strong neighborhoods with quality affordable housing, to expand local hiring opportunities and advance economic justice in Buffalo. PUSH's members are the community organizers who make affordable housing a reality in Buffalo. PUSH members work with partners and funders to create a healthy, just and strong city that includes community control of resources, living wage jobs and access to quality education, healthcare and transportation.



Syracuse United Neighbors (SUN) is a grassroots community organization dedicated to improving the lives of families living in the neighborhoods on the south, southwest and near-west sides of Syracuse, N.Y. SUN is a member of the National People's Action organizing network, a coalition of neighborhood groups from over 30 states that work on changing national policies that have a direct effect on local neighborhoods. In particular, SUN works for neighborhoods that have affordable homes, equal access to quality public services, crime and drug-free streets, and access to fair credit and decent bank lending.

Six major grassroots organizing groups in New York came together in 2009 to form the **New York Stimulus Alliance (NYSA)**. NYSA's goal was to ensure the Recovery Act would be distributed in an open and accountable major, creating good jobs, workforce training, affordable housing, and transportation development for marginalized populations in New York State, especially its metro regions. These diverse, multi-racial networks and multi-chapter organizations - Common Cause NY, CVH, Gamaliel of NY, National People's Action, New York Immigration Coalition, and Make the Road New York - have statewide reach and bring expertise gained by decades of fighting for racial equality, economic justice and transparent, inclusive government. NYSA has brought the experiences of the jobless, underemployed, immigrants, and those in poverty directly to the officials who can make decisions that will create a more racially and economically just recovery in New York.

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For additional information, please contact Chris Keeley at Community Voices Heard at (212) 860-6001, or chris@cvhaction.org

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Federal CDBG Program
for Grassroots Organizations
and Local Policy Makers

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EXECUTIVE SUMMARY

Nearly three years have passed since President Obama signed into law the American Recovery and Reinvestment Act (Recovery Act), yet many communities continue to suffer as a result of the current recession. Those most impacted by the recession are people with the weakest safety nets — low-income individuals and communities, predominantly people and communities of color. African Americans, Latinos and immigrants have been hit particularly hard, facing substantially higher rates of unemployment, foreclosure, and loss of wealth. And worse still, it was these communities that were starting in the most precarious position, having suffered from decades of mass unemployment and disinvestment.

Through the Recovery Act, the federal government sought to stimulate the economy, build infrastructure, and put Americans back to work. Programs like CDBG-R, which channeled Recovery Act funds into HUD's Community Development Block Grant (CDBG) program, were specifically intended to stimulate job creation and infrastructure developments in low-income communities. However, CDBG-R achieved only limited success, largely due to structural problems with the CDBG program itself. In the end, it seems the Recovery Act funding did not have major differences from the regular CDBG program, but did highlight long-standing problems with the program around public participation and actual benefit to low-income communities.

In this report, some of the organizational partners in the New York Stimulus Alliance (NYSA), in partnership with the Advancement Project, take a critical look at a few of HUD's community development programs, including CDBG, Section 108 Loans, and Section 3. Recognizing that these programs have the potential to channel significant amounts of funding into low-income communities and communities of color, the report guides grassroots organizations and local policy makers through the CDBG and related programs' decision making processes, with a particular eye to opportunities for community input and engagement. Case studies developed by NYSA partner organizations provide real-life examples of victories and setbacks experienced by grassroots organizations seeking to influence CDBG, Section 108, Section 3, and community development more broadly. Finally, the report concludes with recommendations for residents, community based organizations and policy makers seeking to ensure that these government programs result in real benefits to low-income communities.

Visit www.CDBGCommunityPower.org to find this report and additional research and resources related to CDBG, and to share your CDBG experiences and resources with others around the country.

RECOMMENDATIONS FOR POLICY MAKERS AND CDBG ADMINISTRATORS

-  **Staff a “CDBG Accountability Office”:** This office would provide support to residents and CBOs wanting to engage in the CDBG process, and ensure that funds are being used responsibly. This office could also be responsible for overseeing Section 3 implementation and compliance, and the processing of Section 108 Loans.

-  **Expand HUD Regional Offices’ role in CDBG oversight:** Encourage regional offices to track how funds are being used, and have quarterly public meetings to share their findings. HUD’s evaluations should focus on ensuring that *all CDBG grants and Section 108 loans actually result in benefits to low-income communities.*

-  **Scale Up Public Participation Mechanisms:**
 - Implement robust public participation plans and coordinate with CBOs to implement them.
 - Make sure Section 108 and Section 3 concerns are addressed through public participation and the Consolidated Planning process.
 - Establish Community Oversight Committees.

-  **Aggressively Implement HUD Section 3:** Staff a Section 3 Coordinator or develop a Subcommittee to ensure that CDBG expenditures result in job training and employment opportunities for low-income residents.

-  **Utilize Participatory Budgeting in the CDBG decision-making process:** Set up a process wherein community residents have the power to decide on how CDBG resources are spent. PB establishes an annual process that takes residents from neighborhood brainstorming assemblies to budget delegate meetings to a public vote.

-  **Target your jurisdiction’s CDBG funds to those communities most in need:** While HUD establishes that a minimum of 70% of funds must be invested in low- and moderate-income beneficiaries, there is no reason a greater percentage of funds shouldn’t be. Local jurisdictions have considerable flexibility to target their funds how they please.

RECOMMENDATIONS FOR RESIDENTS AND COMMUNITY BASED ORGANIZATIONS



Newburgh's Recommendations:

- **Form a CDBG Oversight Committee:** Work with your Mayor, City Council and/or City Planning Department to establish a CDBG Oversight & Advisory Committee that includes representation from local CBOs and low-income residents.
- **Implement Section 3:** Push your city to fully implement Section 3, and ensure that CDBG-related job training and employment opportunities are made available to low-income residents.



Yonkers' Recommendation: Push your City to Ensure Public Participation: Demand that your city create avenues for public participation beyond *what is required by HUD*, such as by establishing a CDBG Advisory Committee, scheduling additional public hearings, or requiring that low-income residents are represented on the City's Section 108 Loan Committee.



Buffalo's Recommendation: Raise Your Voice when Funds are Misused or Are Not Meeting the Needs of Your Community: Conduct a visioning process with members of your community to brainstorm about how you would want to see your CDBG funding used. Then, find out when your city's public hearings are and come out in force! Make sure the city lays out its consolidated planning timeline, has a formally established and publicly available "Citizen Participation Plan," and that the city's "Annual Action Plan" meets the needs of low-income residents in your community. If it doesn't, submit public comments and formal complaints.



Syracuse's Recommendation: Oppose Risky Section 108 Investments: Demand public participation as part of the Section 108 loan approval process and implement a formal and transparent process through which loans are approved. If your city will not comply, push to end use of Section 108 Loans altogether.



New York City's Recommendation: Implement Participatory Budgeting: Encourage your city to use a Participatory Budgeting process for Consolidated Planning, Annual Action Planning and other CDBG decision making processes (e.g. to identify community needs and allocate expenditures).

INTRODUCTION

In February of 2009, President Obama signed into law the American Recovery and Reinvestment Act (Recovery Act). The Recovery Act authorized \$787 billion to help stimulate the struggling U.S. economy, representing the largest infusion of federal dollars into states and localities since The New Deal. The specific objectives of the Recovery Act are stated in the law itself, the first two of which are: “to preserve and create jobs and promote economic recovery [and] to assist those most impacted by the recession.”

Those most impacted by the recession have been people with the least safety nets — low-income individuals and communities, predominantly people and communities of color. Around the time the Recovery Act was passed, the national unemployment rate was 9.5%, but 12.2% and 14.7% for Latinos and African Americans, respectively.¹

Census data from 2009 showed that Whites had an average of about 20 times the net worth of African Americans and Latinos, which is double the 2005 wealth gap ratio. African Americans and Latinos are over 70% more likely than Whites to lose their homes to foreclosure, and by mid-2010 an estimated 17% of Latino homeowners and 11% of African-American homeowners had already lost their home to foreclosure, or were at imminent risk of foreclosure²

To ensure that Recovery Act funding stimulus dollars would indeed go to the communities, families, and workers who were hit hardest by the recession, in late 2009, community-based organizations (CBOs) across New York State formed the New York Stimulus Alliance (NYSA). Some Alliance members had previously organized around the proper use of funds allocated through the federal Community Development Block Grants (CDBG) program, and now wanted to look into and influence the use of CDBG-R money, which were Recovery Act funds allocated to the CDBG program. To accomplish this, these CBOs — Community Voices Heard in New York, Yonkers and Newburgh, People United for Sustainable Housing (PUSH) in Buffalo, and Syracuse United Neighbors (SUN) — partnered with Advancement Project.

What the collaboration began to uncover resonated with work groups had undertaken with other federal programs even beyond the Recovery Act. Specifically, community development funding was not always, or not at all, being used to assist those most impacted by the recession. The cause of this, however, did not rest within the administration of Recovery Act funds. The reason had to do with the structural and historical problems within the federal programs themselves. The years of organizing experience held by the partner CBOs confirmed that this was certainly true for the CDBG program.

As a result, an effort that began as an investigation into CDBG-R funds grew into an analysis of the CDBG program overall. Part guide, part narrative, and part recommendations, we hope this report will help you and your community consider additional ways to influence federal community development spending, and ensure that these funds actually reach the communities most in need.

PURPOSE OF THIS REPORT

This report is designed to serve as a tool for Grassroots and Community-Based Organizations seeking to increase their voice and participation in funding decisions relating to the Community Development Block Grant (CDBG) program. It can also be used by policy makers seeking to make the CDBG program more responsive to community input and needs. The report is not a guide to applying for CDBG funds or a nuts and bolts manual of CDBG program administration (both of which are available elsewhere); instead, it provides an *overview of the CDBG process with a particular focus on opportunities for community involvement by low-income communities and communities of color*. The report additionally covers Section 108 Loans and the U.S. Department of Housing & Urban Development's (HUD) Section 3 Program, and lays out the penalties that can be levied against local governments if they do not adequately follow public participation guidelines for each of these programs.

This report provides case studies from five cities across New York State to illustrate successful examples of community-based engagement with the CDBG program, as well as challenges faced by CBOs and low-income communities trying to have a voice in decisions relating to CDBG funding. Finally, the report will present recommendations as to how CBOs and low-income residents in New York and in other parts of the country can more effectively influence CDBG and other government-funded community development programs.

WHAT IS THE CDBG PROGRAM AND WHY DOES IT MATTER TO MY COMMUNITY?

CDBG PROGRAM OVERVIEW

The Community Development Block Grant (CDBG) program is a federally-funded program that provides grants to states and local governments to address community development needs. The program has been in existence since 1974 and is overseen by the U.S. Department of Housing & Urban Development (HUD).³

The primary purpose of the CDBG program is to improve communities by providing:

- • Decent housing;
- • A suitable living environment; and
- • Expanded economic opportunities.⁴

By law at least 70% of CDBG funds must be used to benefit “low- and moderate-income persons.”⁵

WHY ARE CDBG FUNDS IMPORTANT AND WHAT CAN THEY BE USED FOR?

CDBG is one of the largest federal programs dedicated primarily to benefiting low-income people and communities. Over the past decade, CDBG expenditures have averaged over \$4 billion annually, and have funded activities such as:

- Affordable housing rehabilitation and development
- Small business development in low-income neighborhoods
- Improving public services and facilities for low-income communities
- Provision of rental and home-ownership assistance
- Urban renewal projects
- Job training and development
- City planning and administration activities.⁶



Note: CDBG also grants loans directly to nonprofit and Community Based Development Organizations (CBDOS) to fund neighborhood revitalization and other community economic development activities.⁷ Many nonprofit and CBDOS rely heavily on CDBG funds to carry out their affordable housing and community development work.

ENTITLEMENT VS. NON-ENTITLEMENT JURISDICTIONS

Cities with over 50,000 people and counties with over 20,000 are called “**entitlement jurisdictions**” and are automatically entitled receive CDBG funds directly by virtue of their size.⁸ All five of the cities profiled in this report are entitlement jurisdictions. The exact amount of funding given to entitlement jurisdictions is determined by a HUD formula that considers factors such as poverty rates, population, housing overcrowding, age of housing, and population growth rates.⁹ Entitlement communities receive 70% of all CDBG funding.¹⁰

The other 30% of CDBG funding goes to cities with populations under 50,000 and counties with populations under 200,000. These are considered “**non-entitlement jurisdictions**,” and are granted funds through the State Administered CDBG Program.¹¹ Unlike entitlement funds, State CDBG funds may *only be granted to local government divisions* that carry out development activities, such as city planning departments.¹² Besides this

HOW IS THE AMOUNT OF CDBG FUNDING CALCULATED?

HUD uses two basic formulas – formula A and formula B – to allocate CDBG funds to entitlement communities (70%) and to States (30%). Once the formulas have been calculated for each recipient jurisdiction, HUD awards CDBG funds based on *the larger of the two formulas*. Formula A is of greater benefit to growing jurisdictions since it takes into account things like overcrowding, whereas formula B is better for recipient jurisdictions that are not growing, since it takes into account the area’s growth lag and older housing stock. In our New York examples, New York City is eligible for more funds under formula A.¹⁵

Entitlement Communities

Formula A

Total national CDBG funding amount times the sum of:

$$\begin{aligned} & (.25) \times (\text{city population/metro population nationwide}) \\ & + (.50) \times (\text{city poverty/metro poverty nationwide}) \\ & + (.25) \times (\text{city overcrowding/metro overcrowding nationwide}) \end{aligned}$$

= **sum of Formula A**

Formula B

Total national CDBG funding amount times the sum of:

$$\begin{aligned} & (.20) \times (\text{city growth lag/metro growth lag nationwide}) \\ & + (.30) \times (\text{city poverty/metro poverty nationwide}) \\ & + (.50) \times (\text{city pre-1940 housing/ metro pre-1940 housing nationwide}) \end{aligned}$$

= **sum of Formula B**

State CDBG Program

Formula A

Total national CDBG funding amount times the sum of:

$$\begin{aligned} & (.25) \times (\text{population/state nonentitlement population nationwide}) \\ & + (.50) \times (\text{poverty/state nonentitlement poverty nationwide}) \\ & + (.25) \times (\text{overcrowding/state nonentitlement overcrowding nationwide}) \end{aligned}$$

= **sum of Formula A**

Formula B

Total national CDBG funding amount times the sum of:

$$\begin{aligned} & (.20) \times (\text{population/state nonentitlement population nationwide}) \\ & + (.30) \times (\text{poverty/state nonentitlement poverty nationwide}) \\ & + (.50) \times (\text{pre-1940 housing/state nonentitlement pre-1940 housing nationwide}) \end{aligned}$$

= **sum of Formula B**

restriction, State CDBG funds are subject to the same use requirements as entitlement funds (e.g. at least 70% of funds must be used for activities that benefit low- or moderate-income persons).

While the amount of CDBG funding granted to each entitlement community varies across the country, grants range from \$70,000 to \$180 million per year, and average just under \$3 million.¹³ Given this hefty sum, low-income communities have a strong stake in ensuring that CDBG funds are allocated in full and used for their intended purpose — namely, providing decent housing and a suitable living environment and expanding economic opportunities, principally for *persons of low and moderate income*.¹⁴

HOW DOES CDBG BENEFIT NEW YORK?

New York State benefits tremendously from the CDBG program. New York City alone received over \$760 million in CDBG funds between 2007 and 2009 (the most recent year expenditure reports available) and is the largest recipient of CDBG funds nationally.¹⁶ CDBG expenditures during roughly the same time period in the cities discussed in this report were as follows¹⁷

- **New York City: Over \$760 million** (\$763,743,084.76)
- **Buffalo: Over \$42 million** (\$42,763,502.56)
- **Syracuse: Over \$20 million** (\$20,522,167.95)
- **Yonkers: Almost \$10 million** (\$9,901,178.13)
- **Newburgh: Over \$3 million** (\$3,341,757.62)

*New York State received an additional \$92 million in CDBG-R funds as part of the 2009 Recovery Act,¹⁸ with over \$48 million going to New York City alone.*¹⁹

In addition to nonprofits and CBDOs, many local and regional housing departments depend heavily on CDBGs to fund their work. For instance, in 2010 CDBG funds made up over 23% of New York City's Department of Housing Preservation and Development (HPD) expense budget, and paid for nearly half of HPD's staff.²⁰ HPD also channels a significant portion of its CDBG funds directly to New York communities.²¹

Do CDBG Funds Actually Flow To Low-Income Communities?

The law governing CDBG requires that at least 70% of a jurisdiction's CDBG funds must be used to benefit lower-income people and communities.²² Thus, we should expect these funds to flow direction into low-income communities, many of which are predominantly communities of color. However, for a variety of reasons this does not always ensure that 70% of funds actually go to helping low-income communities or communities of color. For instance:

- HUD uses “**Area Median Income**” (AMI) to determine how much CDBG funding goes to recipient jurisdictions. They define “low and moderate income” individuals and families as those earning below 80% of AMI for the entire county or metropolitan area — which often includes wealthier suburbs and outlying areas. Consequently, AMI is often artificially inflated and recipient jurisdictions get credit for benefiting “moderate-income” households due to the inflated AMI, as opposed to channeling funds to lower-income people and communities.²³

Newburgh illustrates a particularly stark disparity between the HUD calculated AMI and actual area median income. Despite having an official AMI of \$86,100 when HUD uses the broader metropolitan area, over 25% of the residents that live within Newburgh’s city limits are below the poverty line. If HUD used only Newburgh as the “area” and not the surrounding areas, the median income as measured by the 2010 Census would be just \$35,350 – less than half the current figure of \$86,100.²⁵

To understand why this is so problematic, we need only look at a hypothetical CDBG-funded housing project. Imagine that Newburgh received CDBG funds to build a new affordable housing complex with 25 “low income” units and 10 “very low income” units.

- Using the *Newburgh-specific AMI* of \$35,350 these units would be set-aside for people making under \$28,280 (for low-income units), or under \$17,675 (for very low-income units).
- However, *under the HUD AMI formula*, people with incomes up to \$68,880 could qualify for low-income units, and those making up to \$43,050 could qualify for very low-income units.

Given developers incentives to price units as competitively as possible while still meeting “affordability” standards, many low, very-low, and extremely-low income renters would likely be denied access to affordable units under HUD’s AMI formula.

WHAT IS AMI AND HOW IS IT USED?

“Area Medium Income” (AMI) is a statistical measure calculated by HUD for each metropolitan area (such as a city and its surrounding suburbs) and non-metropolitan county, and used to determine how much CDBG funding a jurisdiction receives. AMI is also used to determine whether CDBG funds are flowing to low- and moderate-income communities. Income levels are determined as follows, and adjusted according to household size:²⁴

- **Moderate Income:**
80-120% of AMI
- **Low Income:**
58-80% of AMI
- **Very Low Income:**
30-50% of AMI
- **Extremely Low Income:**
0-30% of AMI

While AMI is supposed to ensure that CDBG funds flow where they are needed most, low-income communities and communities of color often lose out because of the way AMI is measured — that is, using an *entire county or metropolitan area*. Thus, if a county houses both a relatively poor city and a very wealthy suburb, the AMI for the city will be artificially inflated by the income level of the wealthy suburb. As a result, people who should actually be considered “moderate income” can be counted as “low-income” for CDBG expenditure purposes, which frequently reduces the amount of funding flowing to actual low, very-low, and extremely-low income populations and jurisdictions.



AMI IN NEW YORK, AND IN PRACTICE

Looking at AMI for the five cities in this report shows just how inflated the definition of “low-income” can be under HUD’s formula. For instance, in 2011-2012, AMI was measured as follows:

Table 1: How HUD’s definition of “area” changes what communities are considered “low-income”

Recipient Jurisdiction	“Area” as defined by HUD ²⁶	Counties Represented ²⁷	HUD’s “AMI”	City “AMI” ⁹	“Low Income” Using HUD’s AMI	“Low Income” Using City’s AMI	Gap between HUD & City “Low Income”
Newburgh	Poughkeepsie, Newburgh, Middletown, NY MSA*	Dutchess, Orange	\$86,100	\$35,350	\$68,880 or under	\$28,280 or under	\$40,600
New York	New York, Northern New Jersey, Long Island, NY-NJ-PA MSA	NY: (13 counties) NJ: (9 counties) PA: (1 county)***	\$80,200	\$48,743 (NYC 5 boroughs)	\$64,160 or under	\$38,994 or under	\$25,166
Yonkers	New York, Northern New Jersey, Long Island, NY-NJ-PA MSA	NY: (13 counties) NJ: (9 counties) PA: (1 county)***	\$80,200	\$54,469	\$64,160 or under	\$43,575 or under	\$20,585
Syracuse	Syracuse, NY MSA	Madison, Onondaga, Oswego	\$65,700	\$29,621	\$52,560 or under	\$23,696 or under	\$28,864
Buffalo	Buffalo-Niagara Falls, NY MSA	Erie, Niagara	\$65,300	\$28,490	\$52,240 or under	\$22,792 or under	\$29,448

* Metropolitan Statistical Area

** American Community Survey

*** NY: Nassau, Suffolk, Bergen, Hudson, Passaic, Bronx, Kings, New York, Putnam, Queens, Richmond, Rockland, Westchester; NJ: Middlesex, Monmouth, Ocean, Somerset, Essex, Hunterdon, Morris, Sussex, Union; PA: Pike

Figure 1 further illustrates the significant difference in AMI when using city-specific income data versus data from the broader metropolitan area.

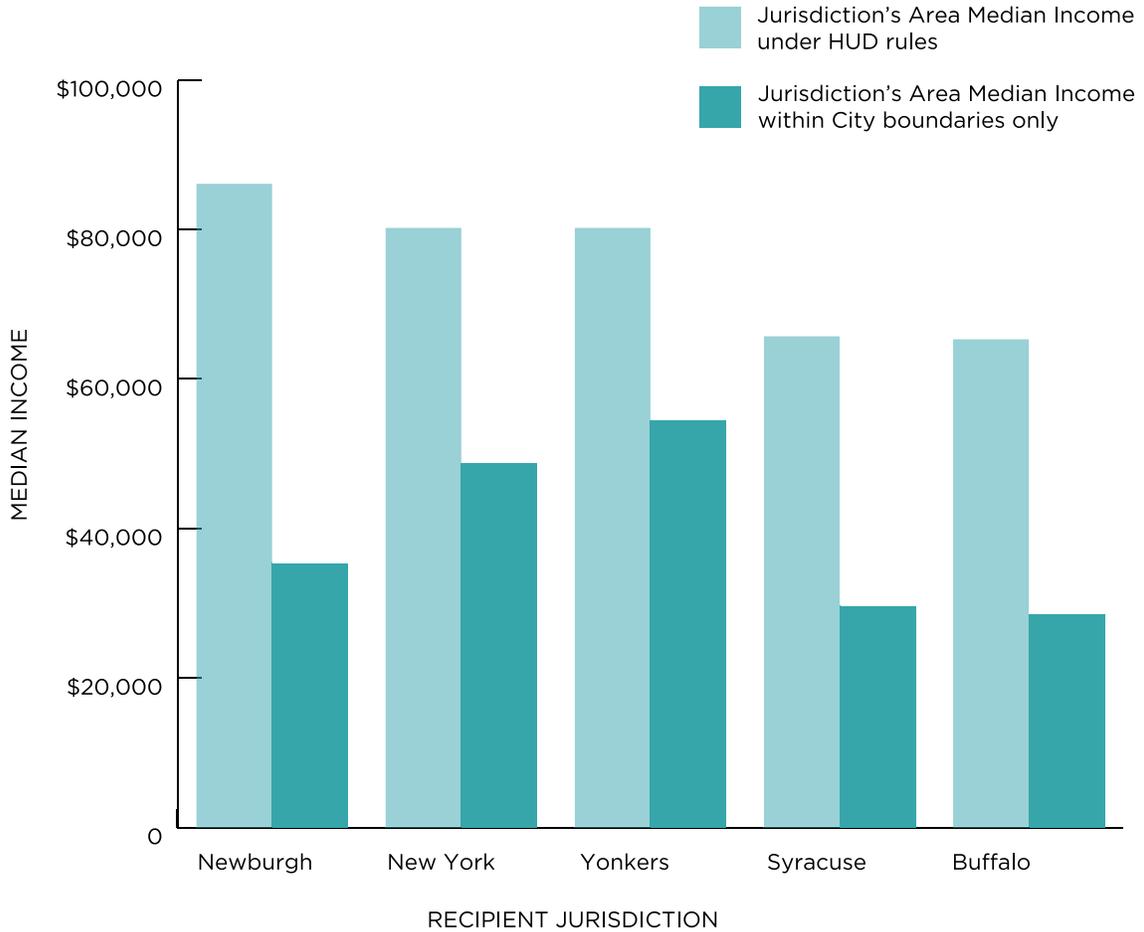


Figure 1: Differences in AMI. City Boundaries vs. Metropolitan Statistical Area



In order to ensure that CDBG funds are reaching truly low-income communities, local jurisdictions should rely on local income levels — especially in cities like Newburgh where there is a significant disparity between local AMI and HUD’s AMI — when distributing CDBG funds and measuring their impact. Local jurisdictions can choose to prioritize the lowest-income communities in their city without any additional guidance from HUD.

- Additionally, since not all CDBG funds from a given year will go to one activity or project, HUD tries to set a standard so that each project or activity benefits lower-income residents. For most CDBG expenditures, only 51% of the project's beneficiaries have to be lower-income for HUD to count the project as benefiting "lower-income people." Thus, even if only 51% of a project's beneficiaries are low-income, HUD counts ALL of the funds utilized as benefiting lower-income people. This makes it significantly easier for recipient jurisdictions to meet their obligation of spending 70% of CDBG funds on lower-income individuals and communities, even if the funds do not directly benefit low-income people.³⁰
- Further, recipient jurisdictions are technically able to spend up to 20% of their CDBG funds on planning and administrative costs.³¹ This means that cities get to chop 1/5 of CDBG funds off the top before even allotting them to community-development needs. And in some cases, as Syracuse's case study will illustrate below, this percentage has in reality been much higher.

Fixing these structural deficiencies would have a big impact on community development and the expansion of job and housing opportunities for low-income individuals, especially in this era of government funding cutbacks and restrictions to services. CDBG funds are uniquely dedicated to serving community development needs, and have the potential to channel significant funds into low-income communities and communities of color. Consequently, the CDBG program — if meaningfully utilized — can provide a critical avenue through which lower-income communities and grassroots organizations can influence local economic development decisions and activities.

Moreover, it is important to keep in mind that while HUD requires 70% of funds to serve lower-income persons, this is only a minimum requirement. That means community members, policy makers and program administrators can establish a higher minimum standard locally and advocate for changes at the city level that require 75%, 80% or even more of CDBG expenditures to be used to benefit lower-income communities.



HOW IS THE CDBG PROGRAM ADMINISTERED?

The CDBG funding process is lengthy and somewhat complex, but if followed properly affords community members and CBOs numerous opportunities for participation and input.



Note: the HUD participation rules laid out below are only minimum standards but any city can create broader and more aggressive public engagement opportunities.

In this section we provide a rough overview of the CDBG decision-making process and opportunities for community engagement. However, for more detailed guidance we recommend that you utilize the following helpful resources developed by the Center for Community Change:

- *CDBG: An Action Guide to the Community Development Block Grant*³²
- *HUD's Consolidation Plan: An Action Guide for Involving Low-Income Communities*³³

POINT OF ENTRY: THE CONSOLIDATED PLAN

In order to receive CDBG funds, all jurisdictions must first develop a **Consolidated Plan** that HUD can then approve.³⁴ This plan attempts to streamline the planning, application, and reporting requirements of 5 different HUD programs in a single process and document.³⁵

The Consolidated Plan requires jurisdictions (i.e. cities or counties) to identify “all of its housing and development needs, and then come up with a long-term strategy for meeting those needs.”³⁶ Consolidated plans must be submitted to HUD every five years. Then, each year, recipient jurisdictions identify which activities they will carry out and how much money will be spent on each program, including CDBG — which is typically the largest pot of funds — and submit an annual action plan.³⁷



Note: Since the Consolidated Plan is intended to be more of a long-term strategy document, you might try shaping the Consolidated Plan as a more impactful way of influencing your city's use of CDBG funds, rather than focusing solely on the Annual Action Plans, which can vary each year and are produced based on what was initially laid out in the Consolidated Plan.

CDBG DECISION MAKING PROCESS: 5 STAGES OF THE CONSOLIDATED PLAN

The development of a Consolidated Plan has 5 major stages, each with opportunity for public input and participation. Prior to getting involved in the Consolidated Plan/CDBG decision making process, it is a good idea to learn what stage your jurisdiction is in.

Stage 1: Identify Community Development Needs

Each year, recipient jurisdictions must engage the public to identify housing and community development needs. This is often done by holding one or more public hearings.³⁸



Tip: Some organizations push for more public hearings and town halls so that more needs can be identified and more community members can participate. Others hold ‘visioning sessions’ to identify what local residents want to see CDBG funds used for.

Stage 2: Propose the Annual Action Plan

Taking into account the community needs, the jurisdiction must prepare a formal “Action Plan” that documents how CDBG funds will be used. Then, “affected” residents — namely low- and moderate-income residents and any resident living in an area where funds are proposed to be used — must be given the opportunity to review the plan and provide feedback.³⁹



Tip: At a minimum, jurisdictions must hold at least one public hearing during the plan’s development and give the public at least 30 days to review and comment on the proposed Annual Action plan. The “Proposed Plan” must be published in a way that allows residents, public agencies and other interested parties an opportunity to examine it and submit comments — for instance, by making copies available at public libraries, government offices and other public places.⁴⁰ Some groups have pushed their city to expand how the Proposed Plan is distributed so that more residents can review it. Modifying the Proposed Plan is usually the last chance to make changes before the Annual Plan is finalized, so be ready to review and respond to the proposal!

Stage 3: Final Annual Action Plan

After considering the public’s comments, City Council members or the requisite governing body, such as the city planning board, approve a Final Annual Action Plan, and then submit this plan to HUD for review.⁴¹



*Tip: If you have concerns about whether or not your jurisdiction followed its guidelines with respect to citizen participation or eligible funding activities, this is a good time to submit a formal **letter of complaint** to HUD explaining your concerns because the Plan has not been approved yet and HUD could force changes to the plan. And remember, a jurisdiction has to allow for the public to provide input, but that input, according to HUD rules, is not required to be incorporated into the Proposed or Final Plans. See the Appendix for a sample letter of complaint.*

Stage 4: Substantial Changes to the Action Plan

Once HUD approves the final action plan, any time there is a “substantial

amendment” to a jurisdiction’s Action Plan, the public must be given “reasonable notice” that the change is being proposed and an opportunity to comment on it.⁴²



Tip: The law does not specifically define “Substantial Amendment,” however changes in use of CDBG funds or methods of distribution are generally considered Substantial Amendments that would trigger public comment. Some groups, when they hear CDBG funds may be getting redirected to a new and unexpected project, have pushed for opportunities for public input by stating that the change amounts to a ‘substantial amendment.’

Stage 5: Consolidated Annual Performance Evaluation Report (CAPER)

At the end of its annual cycle, the jurisdiction must submit a Performance Report detailing how funds were used. For instance, for all CDBG funded activities the jurisdiction must identify how much money was budgeted, what was actually spent, the location and corresponding accomplishments of each activity, and number of residents that benefit (broken down by race and income category).⁴³

Before submitting its report to HUD, the jurisdiction must provide an opportunity for public comment. These comments must be attached to the CAPER report before it is submitted to HUD.



*Tip: In order to document your concerns for the following year’s process, this is a good time to submit a **formal complaint** if you feel that a city or CDBG recipient did not follow through on its proposed Action Plan, or failed to satisfy CDBG program requirements (e.g. using funds to benefit low- and moderate-income persons). See the appendix for a sample complaint.*

PUBLIC PARTICIPATION IN THE CDBG PROCESS

In addition to following the five stages of the “Consolidated Plan” discussed above, all jurisdictions receiving CDBG funds must prepare and administer a formal “Citizen Participation” plan.⁴⁴ HUD requires every jurisdiction to create a Citizen Participation plan that describes how the city will reach out to residents and allow for input and feedback.

Specifically, CDBG regulations **emphasize the importance of public participation** by lower-income people, people of color, non-English speakers, people with disabilities, and residents of lower-income neighborhoods **where CDBG funds are intended to be spent.**⁴⁵

The obligation to “provide for and encourage” public participation covers the entire *CDBG/Consolidated Plan decision making process* — from the development of the Annual Action Plan to any substantial changes to the end of year performance report.⁴⁶ The public must be granted:

- **Access to information:** including the jurisdiction’s Citizen Participation Plan, Proposed Consolidated Plan, Final Consolidated Plan, any Substantial Amendments, and the Annual Performance Report.
- **Reasonable and timely access to local meetings:** such as to CDBG advisory committee meetings or relevant city council meetings.
- **Opportunity for “Review & Comment”:** All comments must be considered by the jurisdiction, and attached to the relevant document, including the Action Plan, Amendment, and Performance Report. *Again, they must be considered, but there is no requirement for the comments to be included in the city’s final document.*
- **A clearly defined “complaint process”:** The Citizen Participation Plan must describe how public complaints will be handled; and at a minimum requires jurisdictions to *provide written responses to all complaints within 15 days.*
- **Public hearings:** Must be held at *all stages of the process.* At a minimum, hearings should be held to solicit feedback on: 1) housing and community development needs; 2) proposed uses of CDBG funds; and 3) accountability and the jurisdiction’s use of CDBG funds.⁴⁷

Additional details of the public hearing process can be found in the Center for Community Change’s CDBG Action Guide, referenced above.



Tip: The federal CDBG requirements discussed above are *minimum requirements*, which means that cities can go above-and-beyond that minimum by setting up a robust public input and review process, as we highlight below.

Given these requirements, it is easy to get the impression that community groups can clearly and easily play a role in CDBG planning and implementation. However, the experiences of our partner organizations in New York show that this is not always the case. The following case studies illustrate both the successes and challenges experienced by community groups when seeking to engage the CDBG decision making process.

CASE STUDY: NEWBURGH

NEWBURGH'S COMMUNITY DEVELOPMENT ADVISORY COMMITTEE

After witnessing the city of Newburgh squander nearly \$2 million in CDBG and Section 108 funds on the development of a private marina, low-income residents decided they needed to get more involved in their city's CDBG decision-making process.

The Newburgh chapter of Community Voices Heard (CVH) had already succeeded in pushing the city to file a lawsuit to recoup the misused marina funds. CVH also sought to ensure that the city of Newburgh include their voices and the voices of other low-income residents in the CDBG process from its inception — especially in light of the additional CDBG funds coming in under the American Reinvestment and Recovery Act.

CVH approached the Mayor, City Manager, City Council, and Newburgh Department of Planning and Development and requested that they establish a “CDBG Advisory Committee” that included direct representation of low-income residents. When the city failed to respond, CVH organized several direct actions to press the issue. CVH members convened protests and disruptions at City Hall and at the Marina, and organized press conferences to talk about Newburgh's mismanagement of CDBG funds and the need for increased community input. They also met with City Council members, city officials and staff at the Department of Planning and Development.

Eventually, the Director of Planning and Development formed a CDBG Advisory Committee in 2009. In 2010, while the committee met in an informal manner, CVH pushed for it to become a permanent and official City Committee, and worked with the City Council to shape governing language and select initial members. In January 2011, the Newburgh City Council voted to establish the “Community Development Advisory Committee” (“the Committee”) as a permanent, standing committee. According to City legislation, the Committee would be made up of a representative from the Department of Planning and Development, a City Council member, 3 professional practitioners, and 4 residents, of which at least 2 have to be low-income, a stipulation CVH fought hard for.

In its first year, the Committee's efforts were largely successful. CVH representatives sitting on the Committee gathered input about community needs, then raised these needs with the Committee at large. They held informational sessions about CDBG at their community meetings, and increased the number of residents attending public hearings and City Council meetings at which CDBG was being discussed. As a result, the Committee was able to put together a CDBG proposal that was much more aligned with what residents in the community wanted.

Within a year of the committee's existence, there were more funds allocated towards housing - one of CDBG's primary goals, and a tremendous need in Newburgh— than in the previous decade. Based on input from the community, the Committee was able to include funds for sidewalk rehabilitation,

CASE STUDY: NEWBURGH

demolition of unsafe abandoned buildings, and youth programs in targeted neighborhoods. A particularly satisfying victory was getting “Newburgh Builds Newburgh,” a jobs training program designed by CVH members, funded through CDBG. The Committee also works to ensure that CDBG funds are spent correctly; prior to the creation of the Committee, funds often were allocated but never spent.

CVH and members of the Committee also successfully pushed the City to reform its previously nonexistent Section 3 program to provide jobs for local low-income residents. After several years of campaigning for local jobs, including meeting with HUD officials about Section 3 and pushing for a Local and First Source Hiring Ordinance, the City finally got serious about enforcing Section 3. They wrote a comprehensive Section 3 plan, and now incorporate the requirement that 30% low-income residents must be hired into all bids. In fact — in December 2011, the City Council *formally rejected* all of the bids for a demolition contract because none of them satisfied Section 3 requirements. Newburgh is clearly going beyond the minimum standards put in place by HUD.

The Committee has faced some challenges, however, especially with respect to CDBG oversight and implementation. Despite CVH’s efforts to ensure that the Committee had actual decision making power, so far the Committee has only been allowed to play an advisory role, and the City Council is not obligated to incorporate or approve its suggestions. Moreover, despite the passage of a more community-friendly CDBG budget, the plan has yet to be implemented. One of the community members sitting on the committee reported that she has yet to see actual work underway, such as sidewalk repairs or building demolitions. And although the City has a recent and strong commitment to enforcing Section 3, the full results of this commitment remain to be seen because the program’s implementation has taken so long. Overall, substantial improvements to the CDBG program have resulted from the creation of the Committee, but the transformation from the abysmal state of the CDBG program prior to the creation of the Committee, to the success that CVH members envision, has proven to be a lengthy and laborious process.

Although still a work in progress, Newburgh’s model for increasing public participation in the CDBG process is definitely a step in the right direction. In the future, CVH hopes that the Committee will gain autonomous decision-making power, and will expand to include additional low-income members and a youth representative.



Newburgh’s Recommendation: *Form a CDBG Oversight Committee to ensure that the voices of low-income community members are meaningfully incorporated into the CDBG planning and implementation process, and make sure your city is meeting its Section 3 job training and creation requirements (Section 3 will be discussed in more detail below).*

CASE STUDY: YONKERS

IS ANYBODY LISTENING? STRUGGLING TO BE HEARD IN YONKERS

Yonkers has a long and troubled history of racial and economic segregation and exclusion, particularly when it comes to affordable housing, quality jobs, and good schools. In Southwest Yonkers, there is only one job training center responsible for servicing the entire area, and much of the city-wide housing stock caters to people making \$60,000 a year or more, when residents of Southwest Yonkers rarely make over \$30,000 annually.

In an effort to address this entrenched inequality, Yonkers' CVH chapter decided to start tracking the city's use of federal funds, including CDBG expenditures. CVH learned that in 2009, Yonkers had been audited by HUD for the mismanagement of a Section 108 loan, which is a program that makes funds available to cities for larger-scale projects but can put CDBG funds at risk. The proceeds of the loan created only 200 of a projected more than 2,000 jobs. Also, the city was now paying HUD back for that Section 108 loan with CDBG funds — funds that should have been benefiting Yonkers low-income communities. CVH also knew that Yonkers was slated to receive an additional \$1 million in CDBG-R funds as a part of the American Recovery and Reinvestment Act (Recovery Act). CVH members wanted to ensure these funds were used to meet the needs of Yonkers' low-income residents, and that their voices were represented in the CDBG decision making process.

To protest the City's squandering of CDBG funds, CVH members created a fake job application that unemployed and under-employed community members could fill out, and submitted these fake applications to HUD's Regional Director. The goal of these fake applications was to highlight the need for real jobs and economic opportunities in Yonkers by bringing attention to the many out of work residents, and push for responsible use of CDBG funds.

However, CVH members quickly realized that requesting meetings with the same old decision makers was not advancing their cause, as most decisions continued to be made behind closed doors with little community participation. CVH instead organized the following actions to educate policy makers and draw attention to the issue:

- Teach-ins on the Recovery Act which highlighted how much CDBG funding the City received and what kind of progress was being made on development projects;
- A "Statewide Stimulus Tour," where elected officials and members of the media were given a tour of Yonkers and shown where CDBG funds had been used and the areas that could have benefitted from investment; and,
- A "Stimulus Town Hall" where the City Council President committed to holding a budget hearing to discuss use of Recovery Act funds, during which the commissioner of the city's economic planning and development failed to provide adequate documentation for the Recovery Act funds they were responsible for, including CDBG-R funding.

CASE STUDY: YONKERS

Despite these high-profile actions, spending patterns in Yonkers have not changed, nor do they reflect the community's priorities. According to CVH, CDBG funds are going to geographical areas of need, but projects have been tailored to address the needs of higher-income residents that local officials want to attract to Yonkers, as opposed to serving the needs of low-income residents already living in Yonkers. Instead of investing in job training or affordable housing, the city has emphasized economic development to serve business interests. The expenditure of the CDBG-R funds is a prime example: Food pantries — which are serving more families than ever given the current recession — received only \$150,000, while business improvement districts received \$500,000, more than three times the amount for the food pantries. CVH members would have preferred more funding invested in the targeted areas even beyond food pantries, including economic development projects and job training programs.

Yonkers is currently updating its Community Participation Guidelines, but as of yet the Guidelines barely satisfy HUD's minimum requirements. They require "public notification" of meetings to solicit resident input, but this notification has thus far been limited to poorly placed newspaper advertisements or a few flyers being sent to community-based organizations. The city has not reached out directly to community partners, who are best positioned to engage the residents that should be participating in the CDBG decision-making process. As a result, the last few public CDBG meetings had only 8-10 people in attendance, most of whom represented business interests. Were it not for CVH's engagement, there may not have been a single low-income resident in attendance.

CVH members are currently pushing the Office of Community Planning and Development to create a permanent CDBG Advisory Committee. While meeting with the Office and Community Planning has served somewhat as an advisory committee that pushed for a more detailed budget allocation sheet and enhanced community participation, it is clear that more needs to be done. CVH is also advocating for the HUD Regional Office to hold quarterly meetings with Yonkers' Department of City Planning in order to provide adequate oversight, and ensure that funds are being used to benefit low-income communities.



Yonkers' Recommendation: *Fight to ensure that your city meets community needs and goes above and beyond HUD's minimum requirements.*

CDBG PROGRAM ENFORCEMENT & HUD AUDITING REQUIREMENTS

CDBG regulations require that recipient jurisdictions' spending be audited by HUD on an annual basis.⁴⁸ Additionally, states and local governments may have their own auditing requirements.

When reviewing a jurisdiction's CDBG program performance, HUD can consider various forms of documentation, including:⁴⁹

- Performance reports
- Public comments
- Records of program expenditures or activities
- Findings from on-site monitoring
- Audit reports
- The status of any unused CDBG funds

AVAILABLE SANCTIONS

If HUD finds that a jurisdiction has violated the CDBG program's rules and regulations, the jurisdiction will be required to submit a plan laying out how they will fix the problems HUD found (a plan for "corrective action").⁵⁰ Then, if HUD is not satisfied with the jurisdiction's response or corrective actions, **it can institute a variety of sanctions until the jurisdiction addresses HUD's concerns.**⁵¹

The penalties, or sanctions, available to HUD include:

- Suspending CDBG payments
- Demanding return of misused funds
- Demanding different uses (or reprogramming) of funds in accordance with CDBG program goals
- Conditioning future CDBG expenditures on the correction of current funding misuses
- Changing the method of repayment to the jurisdiction from an advance basis to a reimbursement basis, meaning the city pays for its CDBG activities first and then HUD pays the city back
- Requesting that the State's Governor ensure compliance
- Referring the matter to the U.S. Attorney General (e.g. in the case of a civil rights violation) with recommendation that an appropriate civil action be filed.⁵²

HUD can also refuse to approve a CDBG grant *before it is awarded* if a recipient jurisdiction fails to carry out its stated plan, or if there is evidence they will not be able to meet the goals laid out in the plan.⁵³

ADMINISTRATIVE HEARING PROCESS

Prior to any changes made by HUD to a jurisdiction's CDBG funding level, the recipient jurisdiction must be notified of the possible action and given the opportunity to request an administrative hearing.⁵⁴ *Hearings are open to the public, and any interested person — including members of the public — may appear and participate.*

HOW TO FILE A GRIEVANCE WITH HUD OR WITH YOUR LOCAL CDBG ADMINISTRATOR

Depending on the nature of your concern, you may file a complaint about your city's administration of a CDBG with the regional HUD Community Planning & Development Director, the HUD Office of the Inspector General, or your state or local government. Each of these entities must establish systems for tracking and managing CDBG complaints.⁵⁵ Sample grievance letters are included as appendices to this report.

To file a complaint with your state or local government, you can visit the following website to find contact information for state and local government CDBG grantees: http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs/contacts.

You may also file a written or oral complaint with HUD's Community Planning & Development Director. The contact information for the Community Planning & Development Directors in New York State are listed below.⁵⁶

New York Regional Office

Vincent Hom
26 Federal Plaza
Suite 3541
New York, NY 10278
(212) 542-7428

Buffalo Regional Office

William O'Connell
Lafayette Court
465 Main Street, 5th Floor
Buffalo, NY 14203-1780
(716) 551-5755 ext. 5800



For fraud, waste, and abuse complaints that implicate a criminal violation of a law, rule, or regulation, you may file a written complaint with the HUD Inspector General Hotline at **1-800-347-3735 or **hotline@hudoig.gov**.⁵**

CASE STUDY: BUFFALO

AUDITED IN BUFFALO – A PLAY IN FOUR ACTS

Prologue

In the fall of 2009, leaders from Buffalo’s People United for Sustainable Housing (PUSH) organized a community meeting to engage a broad spectrum of residents in reclaiming their neighborhood’s neglected City Park. Over 200 residents, primarily youth, worked to develop the Mass Ave Park Revitalization Plan, reflecting the community’s need for safe and accessible play space. At the meeting, a leadership team emerged to implement the plan.

Act 1: The Public Hearing

Almost a year later, the PUSH leadership team learned about the CDBG program, and saw a clear link to the “Mass Ave Park” project. They decided to work to secure CDBG funds to carry out the project.

Four PUSH leaders and thirty other citizens — primarily staff of the many nonprofit service-providers that have been sub-recipients of CDBG funding — gathered for a public hearing to kick-off the process. On a stage were five unidentified individuals in suits and one man at a podium, who introduced himself as the Director of the Mayor’s Office of Strategic Planning and the Vice-Chair of the Buffalo Urban Renewal Agency (BURA), the agency which administers Buffalo’s CDBG program.

With the help of a slideshow, BURA’s Vice-Chair informed the audience of the City’s broad goals for use of CDBG funds, including to “[s]upport neighborhood revitalization efforts to improve public facilities and infrastructure, especially in the thirteen Livable Communities Initiative’s targeted areas.” This affirmed PUSH leaders’ belief that the funds would fit perfectly with the Mass Ave Park project, which was located within one of the 13 targeted areas. The Vice-Chair then explained the citizen participation process, which began with the current hearing, and opened up the floor up to hear ideas from the community for use of CDBG funds. A few individuals shared their ideas, including a small downtown business owner requesting help with his business, a block club president asking for help with vacant and abandoned properties in her neighborhood, and a PUSH leader who testified to the need for a safe, quality park in his neighborhood.

PUSH members left the meeting feeling satisfied for having made their project known, and thought they were clear about the next steps in the process.

Act 2: The Application

According to the information presented at the public hearing, funds for “Public Services and Facilities” were disbursed through an application process open to non-profit organizations. On average, this category made up about 15% of total CDBG funding annually. It was never explained how the remaining 85% of Buffalo’s CDBG funds would be allocated.

The application process was slightly confusing to the leaders at PUSH because many applicants were applying to be CDBG sub-recipients, meaning that

CASE STUDY: BUFFALO

they were applying for CDBG funds directly to be used on their projects. This was not the case for PUSH, which was requesting CDBG funds to improve a City-owned park, meaning that the City would use the funds to complete improvements. PUSH asked the BURA program administrator about this distinction and she advised them to put in an application anyway.

PUSH leaders attended the City's Application Workshop, which covered much of the same information as the public hearing, and set to work completing their application. The team collaborated to complete the application, including securing a letter of support from a City Council Member and about 15 letters of support from youth organizations within walking distance of the park. PUSH's application requested approximately \$98,000 towards a total of \$1 million needed to complete the Mass Ave Park Revitalization Plan.

As PUSH waited to hear about the status of its application, PUSH leaders were approached by the Mayor's Office of Strategic Planning asking for ideas for how CDBG funds could be used. PUSH re-emphasized the request from its application concerning the community's top priority: the Mass Ave Park revitalization project.

Act 3: Denied?

On the day the Mayor was scheduled to release his draft Annual Action Plan, PUSH leaders contacted the BURA administrator for a copy. She indicated that the release of the draft plan had been delayed. PUSH followed up many times for a status update, but were unsuccessful in reaching the administrator. PUSH finally obtained a copy of the draft budget for the Annual Action Plan from the Niagara District Council Member.

In the draft budget, there was a line item of \$600,000 for "Park/Playground Improvements," but no direct mention of the Mass Ave Park in the budget. PUSH contacted the BURA administrator to ask whether this line item included the Mass Ave Park and she didn't know. She referred them to the Deputy Commissioner of Parks, who claimed to be unfamiliar with CDBG funding and also couldn't answer their question. None of the individuals PUSH spoke to were able to tell them the status of their application. Meanwhile, the Council reviewed and approved the draft plan in a series of public meetings that were not advertised as part of the Citizen Participation process.

Still clueless about the status of their application, PUSH leaders attended the second public hearing hoping to find some answers. Fewer people attended the second public hearing, only about 20 including PUSH leaders, but the format was more open and accessible. All of the individuals on stage were introduced this time, but the BURA vice-chair, who presented last time, wasn't in attendance. After a brief presentation of the draft plan by the BURA administrator, the floor was opened for questions. PUSH leaders noticed that none of the public suggestions made at the first Public Hearing were part of the plan, but only PUSH had returned to follow-up. PUSH leaders asked for answers about their application. The Deputy Commissioner of Parks told them the \$600,000 would be used for repairs to picnic shelters citywide, a priority

CASE STUDY: BUFFALO

BURA had identified. He didn't know specifically about PUSH's application, but assumed if it wasn't included in the budget it wasn't part of the plan. PUSH leaders asked that the draft plan be revised to include the Mass Ave Park project, since the stated intention of the second Public Hearing is to get citizen feedback on the draft Annual Action Plan before the final plan is submitted. They also decided to contact the Vice-Chair of BURA directly and submit additional written public comment during the 30-day public comment period, an official part of the Citizen Participation Plan.

Act 4: Denied!

Shortly after the Public Hearing PUSH got in contact with the Vice-Chair of BURA, who told them their application had been denied. They met with him and submitted over 200 public comments from neighbors of the park to make their case for the draft plan to be revised to include the Mass Ave Park project. No changes were made to the draft plan and it was submitted to HUD for approval. About 3 weeks later, PUSH received an official notice of denial in the mail from the Office of Strategic Planning in response to their application.

On April 30th, the Buffalo News ran a story that the HUD Inspector General had conducted an audit of the City of Buffalo and recommended that \$25 million in misused CDBG funds be repaid to HUD. The audit cited the mismanagement of the program by BURA, resulting in some funds being used for City Hall administration costs rather than projects in low-income communities and other funds being used on projects with questionable impact. For example, millions in loans were administered to small businesses through CDBG for job creation, but no jobs were produced and many loans were not repaid.

The audit's findings reinforced the findings of PUSH members: citizen participation with CDBG isn't happening in Buffalo and the result is that CDBG is not producing results for citizens. People know what they need where they live, but the City of Buffalo isn't letting the people determine their neighborhoods' priorities for this funding. In the words of PUSH members: "So who is deciding the priorities, if we're not? Who is benefiting, if we're not



Buffalo's Recommendation: Undertake a community visioning process to better understand how you would like to see CDBG funds used. Be creative! Then, make sure to actively participate in your jurisdiction's CDBG hearings and submit public comments if your demands are not met.

OTHER HUD PROGRAMS RELATED TO CDBG

HUD Section 108 Loan Program

SECTION 108 OVERVIEW

Section 108 loans are administered as part of the CDBG program. They allow states and CDBG entitlement jurisdictions to expand the size of their CDBG program by turning a portion of their CDBG funds into *federally guaranteed loans*.⁵⁸ Because Section 108 loans are federally guaranteed, the program enables private sector investors to provide financing for community development projects without bearing substantial risk. However, in exchange, jurisdictions must pledge their current and future CDBG funds as security for the loan.⁵⁹

CDBG recipients may apply for loans of up to *five times the amount of their last CDBG grant*, less any outstanding Section 108 commitments or principal balances owed.⁶⁰ Technically, Section 108 loans can be used for *any economic development activities eligible under CDBG*. However, given their size, Section 108 loans are most often used to fund large-scale economic development projects such as housing rehabilitation, public facilities construction or improvements, property acquisition, and “Main Street” development projects.⁶¹ Section 108 loans can also provide an important source of funding for local job creation.

CDBG laws and regulations apply to Section 108, which means that **all Section 108 projects and activities must:**

- Primarily benefit low- and moderate-income people;
- Aid in the elimination of slums or blight; or
- Meet urgent community needs.⁶²

As with CDBG, **at least 70% of funds should go to helping low-income people and communities.**

PUBLIC PARTICIPATION AND SECTION 108

Public participation requirements for Section 108 are similar to those for CDBG. In fact, they often occur as part of the same process. Like with CDBG, applicants must develop and follow a detailed **public participation plan**.⁶³ This plan may be the same as the one developed for the jurisdiction’s Consolidated Plan, modified to include Section 108 funds.⁶⁴

Ideally, the community needs identified through the public participation/Consolidated Planning process should then be incorporated into the final Section 108 loan application. Before the application is submitted, the public must be presented with a **proposed application** which describes, at a minimum:

- The amount of loan sought
- The project location

- An estimate of revenues that will be generated by the project
- Which “national objective” (under CDBG) will be met.⁶⁵

The application must be made widely available for public review and comment, and at least one public hearing must be held to solicit community feedback.⁶⁶ After considering the community’s input, the recipient jurisdiction must make a final copy of the application available to the public.⁶⁷

SECTION 108 CHALLENGES

Although designed to promote community economic development, Section 108 suffers from many of the shortfalls of CDBG — namely that low-income communities are rarely granted a meaningful role in the program’s administration or implementation, despite the existence of formal “public participation” guidelines, and the benefits of the projects funded by Section 108 loans are not always directed at those lower-income communities with the greatest needs. There are also rarely consequences for developers who fail to achieve promised job goals.

Moreover, Section 108 loans can have a direct impact on current and future CDBG funds. Because CDBG funds serve as security for Section 108 loans, private developers are more likely to default without consequences; CDBG funds could be at risk if and when a Section 108 loan goes into default

- Between 2002 and 2008 the City of Buffalo used approximately \$25 million of its CDBG funds to repay defaulted loans, averaging over 17% of its yearly allotment.⁶⁸ Additionally, the city predicts that an additional \$7.5 million will be spent to repay Section 108 loans between 2009 and 2011.⁶⁹
- In 2010, nearly \$130 million (or approximately 4.5% of all CDBG funds) were used to repay Section 108 Loans in CDBG entitlement communities around the country.⁷⁰
- When the developer of a private marina in Newburgh failed to make any payments on his almost \$2 million loan (and records show the city never tried to get loan payments), the City committed current and future CDBG funds to pay it back for him, until community members organized to successfully force the City to recoup the funds (see Newburgh case study).

In short, many Section 108 funded projects do not directly benefit lower-income communities by providing needed jobs. If they do not generate sufficient revenue or are not repaid privately, CDBG funds are put on the line. This punishes communities twice and can deplete an important source of resources specifically intended to benefit low-income people and communities.

CASE STUDY: SYRACUSE

HOW THE CITY OF SYRACUSE BLOWS MILLIONS OF FEDERAL HOUSING DOLLARS EVERY YEAR AND STILL CAN'T REPAIR ITS HOUSING STOCK

Politicians use a couple of metaphors to explain tough economic times. Residents are told that “the city is a family” and “we’re all in this together.” They’re also told the city is going to be run like an efficient business. In Syracuse, if you live in a low-income neighborhood, you have probably heard both metaphors. What hasn’t been said is the truth; Dad blew the family’s savings on gambling and the business was managed like Enron. Syracuse United Neighbors (SUN) has been working on CDBG issues in Syracuse for decades.

The Housing Crisis In Low Income Neighborhoods

Syracuse’s low-income neighborhoods on its south and near-west sides face a severe housing crisis. These neighborhoods make up only 15% of the city’s households, yet boast nearly half of the city’s 1700 vacant homes. Due to bank foreclosures and tax auctions, less than one-third of neighborhood families own their home, compared to homeownership rates of 40% in the rest of the city, and 64% in the county. Ten percent of the homes in these neighborhoods have more than one property code violation. This rate is twice that of any other city neighborhood.

For almost 40 years, the U.S. Department of Housing and Urban Development (HUD) has provided the city of Syracuse with annual funding through the CDBG program. The amounts have varied, from a high of roughly \$12 million in the early 1980’s to a low of \$5.5 million in 2012. Given this annual stipend, why are all the programs dealing with housing in Syracuse either woefully underfunded or nonexistent? Why are there waiting lists for many programs? Why does a small home handyman program spend its entire \$100,000 budget in less than a week? Why is there no serious program to rehabilitate abandoned houses? These shortfalls are a result of both the federal underfunding of CDBG and the deliberate misuse of CDBG money by the city of Syracuse. The misused CDBG money went down two distinct sinkholes.

Sinkhole #1: Plugging City Budget Gaps

The goal of the CDBG program is to develop healthy communities “by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.” Unfortunately, the City of Syracuse has viewed the annual CDBG budget a bit differently. CDBG became an employment program for City Hall bean-counters.

Despite continual decreases in federal support for CDBG, the city increased the amount of CDBG funding allocated for City Hall employee salaries. The city flouted HUD rules which cap at 20% the amount of money cities can spend on administration, and instead the city of Syracuse continued to use its CDBG funds as a way to plug general budget gaps. In 2008, Syracuse spent **48% of its CDBG allotment on city administrative costs.**

CASE STUDY: SYRACUSE

How was this accomplished? In addition to fully funding the “administrative line item” at 20% of the budget, the city created budget lines under “housing” and “economic development” called “technical services.” These allocations went directly to city departments, without an explanation of how the funds were to be spent, despite the fact that this explanation is required for all funds received by non-profit agencies. In addition, HUD’s year-end performance review provided no detailed accounting of the city’s “technical services” expenditures.

Likewise, in an August 2004 letter to the city from HUD’s regional office in Buffalo, the city was warned of a “disturbing trend.” Of the \$5.9 million in CDBG funds available in 2003, only 14% of the CDBG budget (less than a million dollars) actually resulted in physical housing improvements — e.g. a repaired house, a new house or a demolition of a deteriorated house. Administration, technical services and code enforcement received 61% of the budget and planning costs took up 25% of the budget.

These misuses did not change until December of 2009. Mayor-elect Stephanie Miner announced that she would fire eight City Hall employees in the Department of Community Development upon taking office. She also announced that the CDBG money that would have gone to those City Hall staffers would instead go expanding the budget for a 1% interest home improvement loan program run by a local non-profit. Mayor Miner has continued to reform how CDBG money is spent in Syracuse, prioritizing the rehabilitation of housing and support services for Syracuse’s most vulnerable residents

Sinkhole #2: HUD 108 Economic Development Loans

Adding to the misuses discussed above, the Section 108 Loan Program has drained an additional \$8 million from the city’s CDBG budgets since 1998 — and will not end its reign of terror until 2019. Although all projects receiving Section 108 loans must allegedly meet CDBG requirements for benefiting low- to moderate-income people, this has not happened in Syracuse.

Under Mayor Roy Bernardi (1994-2001), the city transformed a small program that lent small amounts of money (usually less than \$50,000 per loan) to local companies, into a monster. Mayor Bernardi helped the city rack up a \$22 million dollar debt to HUD, forcing the city, so far, to take \$7.5 million out of its CDBG budget and to sell many city-owned properties at fire sale prices to repay HUD. The largest project was the purchase of an old department store downtown, which was fixed up with all kinds of high-tech gizmos to lure the local power company’s customer service center as a tenant. When the company was bought up and downsized by a multi-national corporation, the service center went back to the power company’s headquarters and the newly-renovated building was left empty. Last year, it was sold to a developer for \$2 million, and has been developed into market-rate loft apartments.

SUN has been an outspoken critic of Section 108 loans. SUN held a press conference on the steps of City Hall in 1992 to point out the danger of using

CASE STUDY: SYRACUSE

money intended for low-income families as collateral for loans to fly-by-night businesses. For two decades, SUN worked to convince the city to use CDBG funds to deal with the housing problems in Syracuse's low-income neighborhoods. SUN's advocacy led to the establishment of a foreclosure prevention counseling program (funded with CDBG money) in 2003. Working through the National People's Action organizing network, SUN helped negotiate with HUD officials in Washington to better maintain vacant HUD houses and with several sub-prime lenders to do automatic foreclosure workouts with families in danger of losing their homes.

In 2004, SUN worked with then Common Councilor Stephanie Miner to radically alter the manner in which Section 108 loans were approved in Syracuse. After a unanimous vote by the Syracuse Common Council, final approval of future Section 108 loans can only come after a public hearing is held by the Common Council, and all proposed loans must garner a supermajority of 6 votes from the 9 member Council. Prior to this procedural change, loans could be approved with the signatures of the Mayor and the pseudo-governmental Syracuse Industrial Development Agency, a body appointed solely by the Mayor. There were no provisions for public hearings.

However, Syracuse's current Section 108 loan debt will continue to haunt the city. Repayments of \$2 million will continue annually, with several years' payments likely to be even higher. In December 2012, the Department of Neighborhood Development announced that it had only identified \$1.4 million of the needed \$2.5 million HUD repayment for the upcoming CDBG budget. The result is an across-the-board 20% cut to all programs — on top of the 6% cut due to decreased federal funding for CDBG. And who is harmed by this? The very low-income residents that CDBG is designed to serve.



Syracuse's Recommendation: Residents and organizations should ensure that their city's Section 108 Loan approval process mandates public input and that all Section 108 funds are directed at worthy projects that will benefit low-income communities!

HUD Section 3 Program

SECTION 3 PROGRAM OVERVIEW

Section 3 is a HUD requirement that requires recipients of certain types of HUD funding, including CDBG, to provide **job training, employment, and contracting opportunities to low-income residents and businesses.**⁷¹ HUD's stated goal for Section 3 is to "foster local economic development, neighborhood economic improvement, and individual self-sufficiency" in low-income communities.⁷²

WHAT DOES SECTION 3 REQUIRE OF CDBG RECIPIENTS?

Section 3 directs recipients of CDBG funds exceeding \$200,000 or CDBG related contracts exceeding \$100,000 to:

- Give preferences for training and employment opportunities arising from CDBG expenditures to low-income residents to the greatest extent feasible;
- Give preferences in awarding contracts to businesses owned by or employing low-income residents to the greatest extent feasible; and
- Make every effort to recruit, target, and direct economic opportunities to Section 3 residents and businesses.⁷³



Note: The first two bullets above say that a city must try to meet the training, employment, and contracting standards "to the greatest extent feasible." This results in many jurisdictions claiming they tried their best, but simply could not meet the actual goals of Section 3. Some groups are pushing to make what are now strong suggestions into actual minimum requirements so that low-income workers will get jobs. This is something a local city has the power to do, even without HUD action.

Program activities covered by Section 3 include: housing rehabilitation, housing construction and infrastructure development, demolition, construction of public facilities, maintenance, and professional services.⁷⁴



Tip: The vast majority of CDBG funded "covered activities" must comply with Section 3!

Section 3 requirements are triggered **whenever a covered project creates the need for new training, employment, or contracting opportunities.**⁷⁵

WHO COUNTS AS SECTION 3 RESIDENTS AND BUSINESSES?

A *Section 3 resident* can be either:

- A public housing resident; or
- A low- or very-low income resident of the area in which covered funds are used.⁷⁶

A *Section 3 Business* is a business that is:

- 51% or more owned by Section 3 Residents; or
- Employs Section 3 residents for at least 30% of its full-time, permanent staff; or
- Has committed at least 25% of its subcontracts to Section 3 businesses⁷⁷

In terms of *numerical goals*, recipients and contractors should ensure that a *minimum of 30% of new hires are Section 3 residents and at least 10% of Section 3 covered building contracts and 3% of all other contracts (i.e. professional services) go to Section 3 Businesses.*

SECTION 3 COMPLIANCE

CDBG grantees must show their own compliance and the compliance of their contractors and subcontractors through annual reports to HUD. In order to demonstrate compliance grantees must submit reports *documenting all new hires and trainees, and the number and types of contracts awarded to Section 3 businesses.*⁷⁸ If Section 3 numerical goals were not met, recipients must demonstrate why goals were not met despite actions taken.



Tip: You should be able to obtain a copy of your jurisdiction's Section 3 report from your local CDBG administrator. Alternately, you can request one directly from HUD. You can use these reports to see whether your city is meeting their Section 3 requirements. You will find a sample request letter in the appendix.

HUD might find that a CDBG recipient *has not complied with Section 3* if they failed to:

- Meet numerical goals
- Ensure that contractors and subcontractors complied with Section 3
- Notify Section 3 residents and Section 3 businesses about employment, training, or contracting opportunities
- Incorporate Section 3 clauses into all solicitations and contracts
- Provide a preference to Section 3 residents and businesses.⁷⁹

If a city is noncompliant with Section 4 requirements, HUD can sanction the city, terminate CDBG contracts, and/or suspend the city from future HUD contracts.⁸⁰



Tip: If you believe that your jurisdiction is not complying with Section 3 requirements, you can file a **formal letter of complaint** with the HUD Office of Economic Opportunity.⁸¹ Find a sample request letter in the appendix.

SECTION 3 CHALLENGES & RECOMMENDATIONS

Section 3 can serve as a powerful tool to ensure that residents of low-income communities have access to jobs, training, and business development opportunities. However, since its inception the program has suffered from a lack of monitoring and compliance, which has hindered its effectiveness.⁸² CDBG grantees are often unaware of their Section 3 obligations and rarely face consequences for noncompliance.⁸³

Section 3's "new hire" requirements have also proved difficult to monitor or enforce because contractors can technically "hire" Section 3 residents to satisfy numerical goals, but then not use them, or there are no new hires and therefore compliance is met with no jobs going to residents.



Tip: Many advocates suggest that instead of requiring 30% of new hires to be Section 3 residents, the program should require that 20% (or more) of hours worked be completed by Section 3 residents. This would ensure that new Section 3 employment opportunities do not exist solely on paper.

Section 3 has achieved the greatest impact in jurisdictions that dedicate a *specific office or staff member* to overseeing Section 3 implementation and compliance. Some examples of "**best practices**" that have resulted in higher levels of Section 3 compliance include:



Establishing a "Section 3 Coordinator" position to coordinate communication between CDBG grantees (e.g. a local housing authority), contractors, Section 3 business owners, local residents and local community councils or community-based organizations.⁸⁴



Creating a "Section 3 Subcommittee" that includes low-income community members and is responsible for setting up and overseeing Section 3 guidelines, goals, monitoring, and training opportunities.⁸⁵



Locating Section 3 program responsibility with other comparable divisions, e.g. Civil Rights Enforcement or Minority and Women Businesses Enterprise certification programs, to increase institutional commitment to the program and facilitate coordinated implementation.⁸⁶



Promoting working relationships between CDBG grantees and local organizations that can provide pre-apprenticeship and training opportunities for Section 3 residents.⁸⁷ For instance, the Philadelphia Worker Training Center hosts training programs for residents, in collaboration with unions, and then serves as a hiring hall for contractors that are seeking out residents to fulfill Section 3 requirements.

Congresswoman Nydia Velasquez of New York has introduced legislation that would advance many of these goals and practices by creating an “Office of Economic Opportunity” within HUD focused solely on administration and oversight of the Section 3 Program.⁸⁸ Representative Velasquez bill, entitled the “Affordable Communities Employment Act,” would also increase public accountability of the Section 3 Program by strengthening reporting, monitoring and compliance requirements and requiring HUD to conduct annual “community hearings” where local residents can share feedback about program performance.⁸⁹

*CBO’s and low-income residents seeking to increase effectiveness of the Section 3 program should encourage their local governments to take Section 3 obligations seriously and implement some of the “best practices” listed above. Likewise, during the development of a City’s Consolidated Plan, residents should make sure the plan addresses **how the city will implement and fulfill its Section 3 obligations**. Section 3 has the potential to bring substantial economic opportunity into low-income communities; however it will only succeed if the program is meaningfully implemented and enforced.*



TAKING CDBG ACCOUNTABILITY TO THE NEXT & NEEDED LEVEL: PARTICIPATORY BUDGETING

In the fall of 2011, four New York City Council Members helped pilot a new, truly democratic approach to public spending called “Participatory Budgeting” (PB). Each council member *invited local constituents* to decide how to spend at least \$1 million of their available discretionary capital funds, which are generally dedicated for use on public projects.⁹⁰ Although hundreds of cities around the world have utilized participatory budgeting, this is only the second time it has been formally implemented in the United States.

WHAT IS PARTICIPATORY BUDGETING?

Participatory Budgeting (PB) is a democratic process in which community members *decide directly* how to spend some or all of a public budget.⁹¹ It was first developed in the Brazilian city of Porto Alegre in 1989, and since then as many as 50,000 residents per year have decided how to spend as much as 20% of the city budget. Over 1,000 city governments around the world now allow the community to make decisions about municipal spending through PB. The process has also been used by states, counties, schools, universities, and housing authorities, among other entities, to encourage democratic participation in spending decisions.

Participatory Budgeting is more than just a public consultation – it involves communities coming together to make real decisions about real money!

HOW DOES PARTICIPATORY BUDGETING WORK?

There is no one model for participatory budgeting, however PB usually involves community members making budget decisions through an annual cycle of local assemblies and meetings.⁹² Most PB processes include at least the following 5 stages:

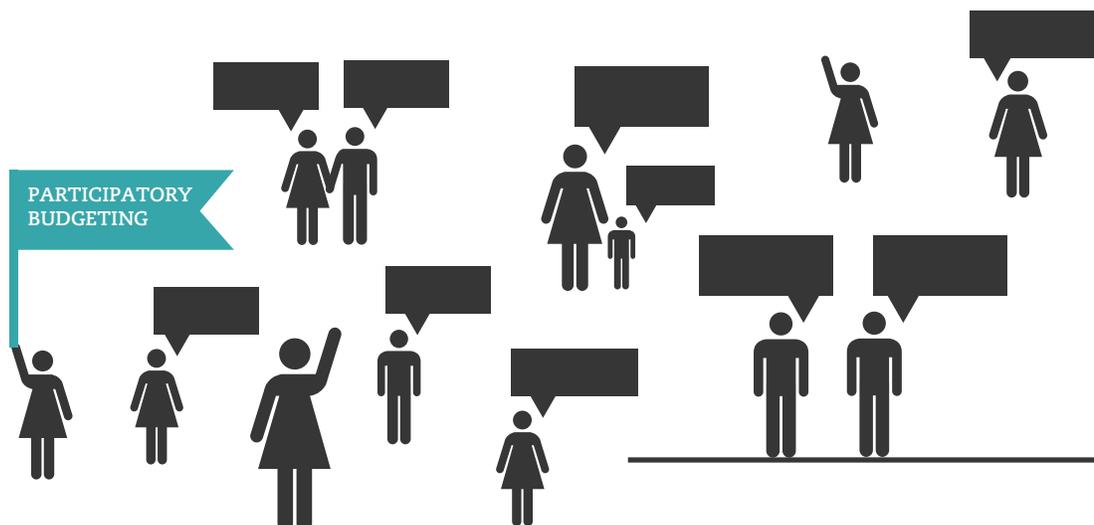
1. **NEIGHBORHOOD ASSEMBLIES:** Community members identify local priority needs, brainstorm ideas to address these needs, and choose budget delegates for each community represented.
2. **DELEGATE MEETINGS:** Delegates discuss local priorities and develop concrete projects to address them, with help from experts.
3. **VOTING:** Community members vote on which projects to fund.
4. **PROJECT IMPLEMENTATION:** The government (or relevant entity) implements the chosen projects.
5. **MONITORING:** Community members and delegates monitor the implementation of budget projects to ensure that they are completed.⁹³

WHAT ARE THE BENEFITS OF PARTICIPATORY BUDGETING?

Participatory Budgeting offers benefits for both public officials and community members, and has been particularly effective at addressing the needs of low-income communities. When properly implemented, PB results in **better budget decisions, more efficient and responsible spending, and more sustainable and livable neighborhoods.**

More specifically, PB advances the following principles and outcomes:⁹⁴

- **COMMUNITY PARTICIPATION:** PB gives ordinary people of all backgrounds and income-levels the opportunity to have a say in local decision making.
- **BETTER AND MORE EQUITABLE DECISIONS:** Local residents know best what their needs are, and PB allows communities to redistribute dollars to address the most pressing needs.
- **INCREASED TRANSPARENCY:** PB makes budget and spending decisions open and accessible to the public. Through doing so, it also decreases the likelihood of corruption, waste or costly public backlash.
- **DEMOCRATIC GOVERNANCE:** PB is one-person, one-vote; every community member has the same power to propose and vote on spending ideas.
- **COMMUNITY BUILDING:** PB brings communities together, allows residents to get to know their neighbors and helps them feel more connected to their community.
- **STRENGTHENED COMMUNITY ORGANIZATIONS:** PB enables CBOs to spend less time advocating and more time deciding local policies.
- **DEVELOPS ACTIVE, EMPOWERED AND DEMOCRATIC CITIZENS:** Community members and local government staff and officials *learn democracy by doing it*. They gain a deeper understanding of the political process and of how to address community needs.



CASE STUDY: NEW YORK

PARTICIPATORY BUDGETING IN NEW YORK

Community Voices Heard (CVH) first learned about Participatory Budgeting (PB) when a delegation of CVH members and staff attended the 2002 World Social Forum in Puerto Alegre, Brazil. CVH delegates attended workshops about PB and its implementation in Brazil, and were excited about the idea of local governments truly giving power to the people.

Over the next decade, CVH members continued to learn about PB and researched its application in Brazil and elsewhere. They learned that Toronto's Housing Authority distributed \$9 million annually through PB, and sent a delegation of CVH members to Toronto to learn about and observe their PB process. CVH also learned that Chicago Alderman Joe Moore had recently expended \$1.3 million of his discretionary budget through PB — the first successful use of PB in the U.S.

In the fall of 2010, a technical assistance organization called the *Participatory Budgeting Project (PBP)* organized a speaking tour for Alderman Moore, and as part of the tour CVH participated in a public forum where New York City Council Members, CVH members, and the broader community could learn more about PB in practice. PBP followed up with a briefing for New York City Council members about the benefits of Participatory Budgeting.

As a result of these meetings and conversations, four New York City Council Members agreed to allocate a portion of their capital discretionary funds through participatory budgeting.⁹⁵ Each Council Member has pledged at least \$1 million to PB in year one, and possibly more, depending on their total funding allotments.

New York is currently about halfway through its pilot participatory budgeting process, and so far things are going very well. In East Harlem, where CVH is most intensely involved, nearly 600 community members attended the initial round of neighborhood assemblies, including a special assembly for youth and another for seniors. Nearly all assemblies had interpreters to ensure the broadest possible community participation. Over 100 signed up to be budget delegates.

Delegates then underwent a special and more thorough orientation regarding the city's budgeting process and the allocation of discretionary resources, and the role of delegates in the process. Then, they signed up to be on issue-based committees (e.g. parks and environment, community safety, arts and culture, youth services) to delve deeper into proposed project ideas.

Delegate committees met between 5-8 times between November 2011 and February 2012 to prioritize projects and decide on what's feasible. Then, a second round of Neighborhood Assemblies will be held in which the Delegates will present their recommendations, and community members will offer feedback. Finally, in late March, Delegates will present the final proposals and the community will vote on which projects to fund.

CASE STUDY: NEW YORK

Following the vote, Delegates will continue to meet to evaluate the PB process and oversee implementation of the selected projects.

In the future, CVH hopes to work with PBP to increase the number of New York City Council Members utilizing participatory budgeting, and advocate for other government agencies to adopt PB for a portion of their budgets. Additionally, CVH is hopeful that PB will drive other types of electoral reform, such as expanding voting rights for noncitizens and people with felony convictions, and exploring alternative methods of electoral participation such as online and early voting.

The biggest obstacle that CVH has faced in implementing PB is ensuring broad public participation in the budgeting process. Participation has been most robust in neighborhoods where CVH or another well-established CBO is able to oversee the process and mobilize residents to participate, such as CVH has in East Harlem. Districts lacking this infrastructure may struggle to turn out a truly representative pool of participants and voters.

Additionally, funding the PB process can pose challenges. In New York's pilot program each Council Member put forth \$3,000 to \$8,000 in expense funds to oversee the process and for technical assistance. However, this money doesn't cover the organizing work conducted by CVH or other community-based organizations, resulting in a need for private funds to supplement the initial PB cycle. Ideally, the point agency or entity would dedicate sufficient resources for a community district coordinator in addition to a staff coordinator internal to the agency/entity itself. Additionally, setting aside funds to support outreach and mobilization efforts is critical to ensuring the engagement and participation of the most disenfranchised.

CVH would love to see PB expanded to other cities or other elements of New York City's budgeting process. They feel that PB is ***grassroots democracy at its best*** — it brings together diverse districts and residents to exchange and debate ideas, work together to turn these ideas into concrete project proposals, and then decide which projects should get funded. In the process, residents educate themselves about participatory democracy and the functioning of local government, build and empower their communities, and make informed decisions about what is needed where they live. After all, who could know better?



New York's Recommendation: Implement Participatory Budgeting: Encourage your city to use a Participatory Budgeting process for Consolidated Planning, Annual Action Planning and other CDBG decision making processes (e.g. to identify community needs and allocate expenditures).

HAS PARTICIPATORY BUDGETING EVER BEEN USED WITH CDBG?

To our knowledge, PB has never been used to make decisions about CDBG expenditures. However, given the size and flexibility of CDBG funds, having decisions about its allocation and spending made through a PB process would be very impactful.

There are several ways that PB might be incorporated into the CDBG planning and expenditure process. For instance, CDBG recipients could:



Implement Participatory Budgeting during Consolidated Planning: A PB process could be used to identify community needs and determine what expenditures are included in a city or jurisdiction’s “Final Annual Action Plan.”



Establish Participatory Budgeting set-asides: In their “Action Plans,” cities could dedicate a lump sum of community development dollars to be administered through PB at the local level.



Use Participatory Budgeting to direct the flow of CDBG funds once granted: Many grantees receive CDBG funds as part of their capital or “general operating” support (e.g. in the case of a City Planning Department). In this case, some or all of these funds could be allocated through participatory budgeting.

These are just a few ideas of how PB might be used to increase the power and voice of CBOs and low-income communities in the CDBG process. If you are interested in learning more about PB and how it might be applied in your city or community, visit the “Participatory Budget Project” website at: <http://www.ParticipatoryBudgeting.org>.

CONCLUSION

Given the current economic climate, the potential benefits provided by Community Development Block Grants, Section 108 Loans, and HUD’s Section 3 program are critically needed. Each of these programs has the potential to channel significant resources and opportunity into low-income communities and communities of color — through jobs, affordable housing, community renovations, youth programs, and other community benefits. Whether this outcome is achieved depends largely on policy makers willingness to meaningfully investigate community needs, and local residents’ ability to make their voices and needs heard.

We hope that this report will serve as a useful guide and point of entry for low-income residents, CBOs, policy makers and CDBG administrators committed to making CDBG and its related programs more effective, responsive, and accountable tools for advancing low-income community economic development and employment opportunities for low-income workers.

RECOMMENDATIONS

Recommendations for Residents and Community-Based Organizations

After taking in all of this information about the CDBG program, Section 108 Loans, HUD Section 3, and Participatory Budgeting, you may be wondering: where should I or my community engage first? While there is no single answer to this question, the recommendations lifted up in this report, and utilized by community-based organizations across New York State, provide a great point of entry. These recommendations are detailed below.



Newburgh's Recommendation: Form a CDBG Oversight Committee

When Newburgh's CVH chapter found themselves unable to meaningfully engage the CDBG process from the outside, they organized to get themselves a seat at the table, or rather, to create a new table altogether! To do the same in your community, here is what they recommend:

- Approach your Mayor, City Manager, City Council, City Planning Department and other relevant stakeholders to request that they establish a CDBG Oversight and Advisory Committee that includes representation from local CBOs and low-income residents. Ensure that the committee, once established, has real decision making power and not just power to make suggestions.
- If the city is reluctant, work with local residents and CBOs to convene hearings, protests, and other direct actions to pressure City officials and increase public awareness of the issue and need.
- Push your city to fully implement Section 3, and ensure that CDBG-related job training and employment opportunities are made available to low-income residents.



Yonkers' Recommendation: Fight to ensure that your city meets community needs and goes above and beyond HUD's minimum requirements

Despite creating formal "public participation guidelines," Yonkers failed to ensure that low-income residents or Community-Based Organizations had a meaningful opportunity to participate in the CDBG process. To ensure that the same doesn't result in your city, Yonkers' CVH chapter suggests the following:

- Demand that your city create avenues for public participation beyond what is required by HUD, such as by establishing a CDBG Advisory Committee.
- Ensure that low-income community members are represented on the City's Section 108 Loan Committee.
- Pressure the HUD Regional Director to hold quarterly meetings with your City's department of City Planning (or whichever agency is in

charge of CDBG) and the CDBG Advisory Committee (once created) to provide adequate oversight, and ensure that funds are being used to benefit low-income communities.



Buffalo’s Recommendation: Raise Your Voice when Funds are Misused

After participating in Buffalo’s CDBG citizen participation process and having their input completely ignored, PUSH submitted over 200 public comments from local residents requesting that the City’s plan be revised. When the city was audited later that year these actions paid off, and the city was forced to repay \$25 million in CDBG funds. Here’s how PUSH Buffalo suggests you make CDBG audits work for you:

- Conduct a visioning process with members of your community to brainstorm about how you would want to see your CDBG funding used. PUSH members wanted a park. How would members of your community want to use CDBG funds?
- Find out when your city’s public hearings are and come out in force! Make sure the city lays out its consolidated planning timeline and has a formally established and publicly available “Citizen Participation Plan” that spans the entire process.
- Once available, obtain a copy of your city’s “Annual Action Plan” and make sure it addresses issues raised at public hearings and through other public participation channels (e.g. applications from local neighborhood groups or CBOs), as well as meets the needs of low-income residents in your community.
- If the Action Plan fails to reflect community input and needs, submit public comments and formal complaints to your city’s CDBG administrator and to HUD.

PUSH Buffalo further acknowledged a need for punishment beyond monetary sanctions for CDBG misuses. Currently, if funds have already been spent, the money owed back to HUD is pulled from the city’s budget. This in essence punishes local residents — the very people CDBG funds are supposed to help – for the city’s misbehavior.

- If monetary sanctions are proving ineffective, you might advocate for other types of sanctions to be levied against the city — e.g. reprogramming of funds, or in especially egregious cases of misuse, you can refer the matter to the U.S. Attorney General.



Syracuse’s Recommendation: Oppose Risky Section 108 Investments

Syracuse was paying over \$2 million annually to repay the city’s irresponsible use of Section 108 loans. To prevent future loan misuse, SUN worked with the city to strengthen its loan approval process and mandate public input. SUN recommends that CBOs do the following:

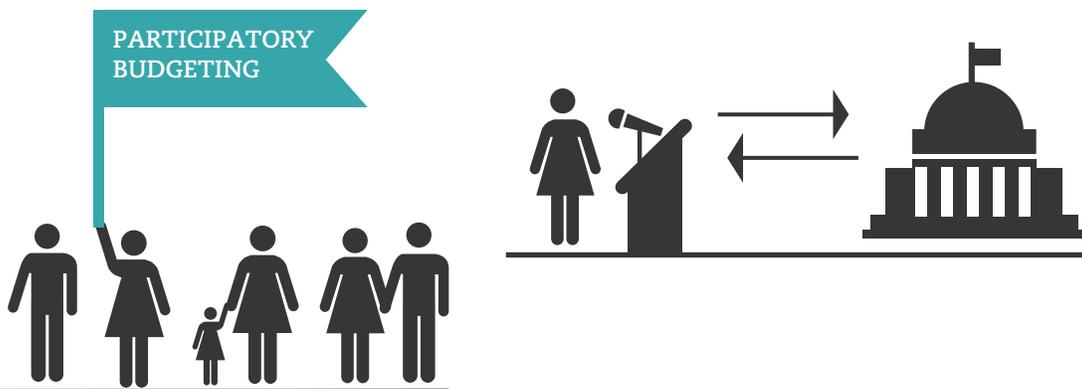
- Demand public participation as part of the Section 108 loan approval process, such as a required public hearing or public comment process. Make sure the process is well-publicized to local residents and community groups.
- **Implement a formal and transparent process through which loans are approved** — e.g. require a formal vote at a city council meeting which is open to the public – and demand that loan-funded projects benefit low-income communities. Ensure that the mayor does not have sole authority to approve Section 108 loans or determine how loans are spent.
- End the Section 108 Loan Program altogether if other changes do not improve the usage of those funds.



New York City's Recommendation: Implement Participatory Budgeting

New York City's CVH chapter is breaking new ground as they implement Participatory Budgeting with City Council members. While PB has not yet been used with CDBG, the nature of the program lends itself well to PB. To implement a PB process in CDBG decision-making in your community, you might consider:

- Encouraging your city to use a PB process for consolidated planning (e.g. to identify community needs and allocate expenditures).
- Advocating for your city to set aside a lump sum of CDBG funds in their "Action Plan" that will be allocated through a PB process.
- Using PB to direct the flow of CDBG funds once expended (e.g. in the case of grantees that receive "general operating" funds).
- Reaching out to the Participatory Budgeting Project for support or additional ideas.



Recommendations for Policy Makers and CDBG Administrators

In addition to the recommendations above, the groups contributing to this report shared a number of overarching recommendations directed towards HUD, local policy makers, and other CDBG program administrators. These recommendations include to:

-  **Staff a “CDBG Accountability Office”:** This office would provide support to residents and CBOs wanting to engage in the CDBG process, and ensure that funds are being used responsibly. This office could also be responsible for overseeing Section 3 implementation and compliance, and the processing of Section 108 Loans.
-  **Expand HUD Regional Offices’ role in CDBG oversight:** Encourage regional offices to track how funds are being used, and have quarterly public meetings to share their findings. HUD’s evaluations should focus on ensuring that *all CDBG grants and Section 108 loans actually result in benefits to low-income communities*
-  **Scale Up Public Participation Mechanisms:**
 - Implement robust public participation plans and coordinate with CBOs to implement them.
 - Make sure Section 108 and Section 3 concerns are addressed through public participation and the Consolidated Planning process..
 - Establish Community Oversight Committees.
-  **Aggressively Implement HUD Section 3:** Staff a Section 3 Coordinator or develop a Subcommittee to ensure that CDBG expenditures result in job training and employment opportunities for low-income residents.
-  **Utilize Participatory Budgeting in the CDBG decision-making process:** Set up a process wherein community residents have the power to decide on how CDBG resources are spent. PB establishes an annual process that takes residents from neighborhood brainstorming assemblies to budget delegate meetings to a public vote.
-  **Target your jurisdiction’s CDBG funds to those communities most in need:** HUD establishes that a minimum of 70% of funds must be invested in low- and moderate-income beneficiaries, there is no reason a greater percentage of funds shouldn’t be. Local jurisdictions have considerable flexibility to target their funds how they please.

Appendix I: Sample CDBG Complaint Letter

[DATE]

[NAME]

[TITLE]

[AGENCY, e.g. Department of Planning and Development]

[ADDRESS]

Dear [NAME],

On behalf of all of the members of the Newburgh chapter of Community Voices Heard, I submit comments on the final draft of the City of Newburgh's CDBG Annual Action Plan for 2010. Our members, who are all low-income residents of the City of Newburgh, have had several meetings over the last year, and especially in the last few months, to determine our priorities for the CDBG program. While we are glad that the proposed plan reflects some of our comments made in past years, such as the change to focus on the "decent housing" objective, it still falls short of meeting the low-income community's needs.

1) We do not feel that Historic Preservation Activities should be funded out of CDBG. Historic Preservation is not a priority for the CDBG program as stated in the 5 year plan, does not provide specific benefit to low and moderate income residents and should be funded out of other funding streams. More specifically, the façade improvement program was never flagged as a priority in committee meetings or public comment.

2) When the CDBG Committee met last, we all agreed that less of the CDBG budget should be spent on salaries. Because of this, the plan was amended to allocate slightly less to salaries, and rightfully so. We did not, however, discuss restructuring the department. The addition of a new position of "Community Development Specialist" was added in late in the process of CDBG planning. Now we find out that in addition to changes detailed in the October 26th memo, the Loan Officer position is being cut to part-time. It does not make sense to cut the Loan Officer position to part-time while hiring another full-time position to oversee the CDBG program. Because the Rehabilitation Loan program is the bulk of the CDBG program, it makes sense in these hard economic times to combine the positions to have just one person oversee both the general CDBG funding and its main program, the Housing Rehabilitation Loan program.

3) This year's CDBG process was different than previous years, with the introduction of a "target area" of Lander St. and surrounding blocks. Yet the proposed CDBG plan does not specify that the funds will actually be spent in this area. All of the talk about seeing a concrete difference by focusing on housing and concentrating the resources in a particular area looks not to be likely with the current plan. We are concerned that the way the Loan program is being developed, it might not benefit that target area at all. We recommend stating a requirement that the funds benefit the target area.

4) The Workforce Development line does not explain the program or the projected outcome - how many jobs did the proposal claim will be created, and how many residents will be trained? Is this program part of a larger strategy of workforce development? Will this program benefit residents in the target area?

5) The Strong Neighborhoods/ Strong Families Initiative: please detail what this funding will pay for. It must also be mentioned that this annual plan, as well as all future plans within the next 5 years, will be bolstered with the use of the returned \$1.9 million in CDBG funds from Marina Ops. As per a conversation with the City Manager on October 29th, the money should be available for CDBG purposes as of this week. Please provide us an update on the status of the money, as well as information on what is still outstanding on the Section 108 loan, as there are many community members interested in providing input so that the money can be used to support a workforce development strategy in the City of Newburgh.

Thank you for your time, and we look forward to your response.

Sincerely,

[NAME]

Cc:

Interim City Manager

City Council Members

Director, Community Planning and Development, Regional HUD

Appendix II: Sample Section 108 Complaint Letter

April 13th, 2009

Mr. Vincent Hom
26 Federal Plaza, Suite 3541
New York, NY 10278

Dear Mr. Hom,

We are writing to you as members of the Yonkers chapter of Community Voices Heard (CVH). CVH is a membership organization of low-income New Yorkers working collectively to influence policy decisions that have an impact on our lives and on our communities. CVH organizes on policy related to community development, job creation, welfare and workforce development throughout New York State. We have chapters in New York City, Yonkers, Newburgh and Poughkeepsie, NY. We are writing today to request a meeting with you to discuss the findings in a recently released HUD audit of the City of Yonkers Section 108 Loan Program and how we can better ensure that the goals of job creation and job retention can benefit our community in Yonkers.

Over the past three years in Yonkers, CVH members have been working to increase the opportunities available for low-income communities to benefit from the community development plans and projects in our city. In that time, we have met with various local and state legislators and other public officials. It is one of our highest priorities to ensure that our communities benefit from access to the job opportunities that are created by the public investment in these development plans.

We understand that HUD's Section 108 Loan Program could offer an opportunity for Yonkers to create and retain employment. The audit that was recently released on March 6, 2009 (Audit Report #2009-NY-1009) concerns us because its findings clearly demonstrate a missed opportunity for our community. There is clearly a lack of real job creation/retention results and the lack of oversight or accountability in the City of Yonkers. CVH members understand, as low-income people struggling to support our families that we cannot afford to waste these opportunities.

This is why we are requesting a meeting to discuss how we may together be able to improve the administration of this program and to see there are other similar HUD programs that may benefit our community. We are asking for approximately an hour of your time to have this discussion with a small group of CVH members. We would like to schedule this meeting in the month of May, so we are asking if you could please get back to us with a date and time that you may be available by April 30th

If you have any questions, please contact our Yonkers organizer, [NAME], at the Yonkers CVH office [Telephone] or email her at [EMAIL].

Mr. Hom, we feel that we share the same goals in assuring that the Section 108 Loan Program provides the community benefits that are the goals of the program and are looking forward to meeting with you. Thank you for your time.

Sincerely,

Appendix III: Sample CDBG Freedom of Information Request to City

[NAME]
Records Access Officer
[ADDRESS]
[EMAIL]

[DATE]

Dear [name],

Under the provisions of the New York Freedom of Information Law, Article 6 of the Public Officers Law, I hereby request the following:

1. All documents associated with the policies and procedures for awarding Community Development Block Grants (CDBG) in New York City from the years 2004- present.
2. All documents associated with all citizen participation plans from the years 2004-present.
3. All documents associated with request for proposals (RFPs) for all CDBG grants from the years 2004-present.
4. All documents associated with rescission of grants for all CDBG projects from the years 2004-present.
5. Procedures for rescission of CDBG grants for projects from the years 2004-present.
6. All documents associated with sanctions for CDBG Projects from the years 2004 to present.
7. All documents associated with audits of CDBG projects from the years 2004- present.
8. Procedures for, and implementation of, notification of potential contractors bidding on and completing work funded by the CDBG.

When available, please send this information in electronic version.

In order to help to determine my status to assess fees, you should know I am affiliated with [YOUR ORGANIZATION'S NAME], a non-profit organization. Disclosure is in the public interest because it will contribute significantly to the public understanding of the operations or activities of the government and is not primarily in [ORGANIZATION NAME'S] commercial interest. I request a waiver of all fees for this request. Otherwise, [ORGANIZATION NAME] agrees to pay reasonable duplication fees for the processing of this request in an amount not to exceed \$25. Please notify me prior to your incurring any expenses in excess of that amount.

As you know, the Freedom of Information Law requires that an agency respond to a request within five (5) business days of receipt of a request. Therefore, I would appreciate a response as soon as possible and look forward to hearing from you shortly. If for any reason any portion of any part of the above request is denied, please inform me of the reasons for the denial in writing and provide the name and address of the person or body to whom an appeal should be directed. If the city lacks any of the required documents for a CDBG grant that are listed above, please supply an explanation.

The requested records may be sent to [EMAIL] or to the following address:

[ADDRESS]

If you have any questions about handling this request, you may telephone me at [###-###-####] or email me at [EMAIL].

Thank you for your prompt assistance in this matter.

Sincerely,

NAME
TITLE
ORGANIZATION

Appendix IV: Sample Section 3 Freedom of Information Request to City Agency

Records Access Officer
[ADDRESS]
[EMAIL]

Dear Records Access Officer:

Under the provisions of the New York Freedom of Information Law, Article 6 of the Public Officers Law, I hereby request a copy of records or portions thereof pertaining to the following, from 2007 to the present. As used below, "Section 3" refers to section 3 of the Housing and Urban Development Act of 1968 (12 U.S.C. 1701u) (section 3)

1. All Section 3 Annual Summary Reports (form HUD-60002) submitted in accordance with 24 CFR Part 135.90, in their entirety.
2. Procedures for, and implementation of, the notification of Section 3 residents and business concerns about training and employment opportunities generated by Section 3 covered assistance. This includes but is not limited to any descriptions of outreach to community groups.
3. Procedures for, and implementation of, notification of Section 3 business concerns about the availability of contracting opportunities generated by Section 3 covered assistance. This includes but is not limited to any descriptions of outreach to community groups.
4. Procedures for, and implementation of, notification of potential contractors completing work on Section 3 covered projects of their responsibilities under Section 3.
5. Procedures for, and implementation of, the monitoring and enforcement of contractors' compliance with Section 3. This includes, but is not limited to, the description of any policies for the evaluation of Section 3 plans in contract bids.
6. Policies for facilitating the training and employment of Section 3 residents; and descriptions or evaluations of any such training and employment programs. Please include the numbers and percentage of residents enrolled in such programs, and any records describing the tracking of subsequent employment rates and apprenticeship participation. This includes, but is not limited to, any outreach to community groups.
7. Procedures for facilitating the awarding of contracts to Section 3 business concerns, including but not limited to any outreach to community groups.
8. The percentage of [AGENCY] contracts and funding awarded to Section 3 businesses.
9. Procedures for identifying contractors that are in violation with the Section 3 regulations; and procedures and subsequent action taken, if any, to ensure those contractors' compliance with the regulations.

If my request is too broad or does not reasonably describe the records, please contact me via phone or email so that I may clarify my request, and when appropriate inform me of the manner in which records are filed, retrieved or generated.

I understand there is a fee of \$.25 per page for duplication of the records requested. Please contact me before duplicating the records to inform me of the prospective cost of answering each of the requests numbered above.

As you know, the Freedom of Information Law requires that an agency respond to a request within five business days of receipt of a request. Therefore, I would appreciate a response as soon as possible and look forward to hearing from you shortly.

If for any reason any portion of my request is denied, please inform me of the reasons for the denial in writing and provide the name and address of the person or body to whom an appeal should be directed.

Sincerely,
[Insert signature/contact info]

Appendix V: Sample Legislative Language that Created Newburgh's Community Development Advisory Committee

RESOLUTION NO.: 278-2010
OF
DECEMBER 13, 2010
A RESOLUTION TO ESTABLISH THE DUTIES AND MEMBERSHIP
OF THE COMMUNITY DEVELOPMENT BLOCK GRANT ADVISORY COMMITTEE

BE IT RESOLVED, the City Council of the City of Newburgh hereby establishes the following duties and membership for the Community Development Block Grant Advisory Committee as follows:

Duties

The Committee's function is to review and make recommendations to the City Council on adoption of the required Consolidation Plan (five-year housing funding priorities) and annual CDBG project funding. The CDAC promotes neighborhood participation in identifying needs and priorities for funding and advises the City on the CDBG citizen participation process and the City's annual program submission to HUD.

Review and make recommendations for sub-grantees and other contracted providers.

Provide guidance and advice with respect to the expenditure of CDBG funds for community development projects.

Participate in the Development of 5 year comprehensive plan and other planning documents required by HUD to ensure compliance with HUD regulations.

Membership

The Composition of the Committee shall include nine (9) members appointed by the City Council:

Four (4) members, at least two (2) of which represent the low income community, on the basis of their knowledge and interest in housing, homeless needs, disability rights, youth services, seniors and social services.

Three (3) professional practitioners on the basis of their expertise in the areas of housing, homeless needs, disability rights, youth services, seniors and social services.

One (1) Member of the City Council.

One (1) City employees who is a staff member of the Department of Planning and Development.

Members will serve two year staggering terms.

Appendix VI: Guiding Questions for CDBG Program Review

Questions to answer for each city regarding allocation and use of CDBG funds:

1. How much money is being allocated in total, per fiscal year or project year? This includes the breakdown by category. How much is your city taking out for program administration?
2. What projects have been allocated funds? How much has each project been allocated?
3. Are there any measurable outcomes indicated, including specific timelines and estimated number of jobs to be created? If so, were the established outcomes actually met? How does your city compare in terms of setting and reaching established outcome targets?
4. What private contractors received contracts to work on the projects? Is there information on how your city oversees its contractors? How do your city's oversight procedures compare to other cities?
5. Where are the projects located socio-economically within your city? How does the concentration of projects in your city compare to other cities?

Questions regarding public hearings and notice:

1. How do public hearings and notice practices vary from city to city?
When are public hearings held?
Was there any public input? If so, how was it actually conducted during the hearing?
What did the actual public notice look like?
1. Does your city regularly comply with its stated Citizen Participation Plan?
2. How could your city's overall public hearing and notice process be improved?

Questions regarding ongoing oversight and compliance:

1. How do your city's stated oversight procedures compare to other cities'? Are yours particularly strong or weak? Are they actually adhered to?
2. Does your city ever clawback CDBG funds or institute other forms of penalties for non-compliant contractors or agencies?

Questions regarding compliance with federal HUD requirements:

1. Is your city actually meeting its federal requirements: Are a minimum of 70% of CDBG funds being invested in low-to-moderate income areas, and are a minimum of 30% of jobs created using CDBG funds going to "Section 3" workers?
2. What is the history of your city's non-compliance with federal regulations, as described in CDBG audit documents?

ENDNOTES

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4. Gramlich, E. (1998). *CDBG: An Action Guide to the Community Development Block Grant Program*. Center for Community Change. Retrieved December 14, 2011 from <http://www.cityofclarksville.com/HousingDevelopment/pdf/CDBG%5B1%5D.pdf>.
5. 42 U.S.C. § 101(c) (2009). Other uses of CDGB funds include the prevention or elimination of “slums or blight,” and addressing urgent community development needs that present a threat to health or safety. *Supra*, note 3.
6. HUD (n.d.). CDBG Expenditure Reports. Retrieved December 16, 2011 from http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/budget/disbursementreports; CDBG Quick Guide. (n.d.). Retrieved October 26, 2011 from <http://www.ci.portland.me.us/cdbgquickguide.pdf>.
7. *Id.*
8. Gramlich, E. (1998), 2.
9. *Supra*, note 3.
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12. *Id.*
13. Community Voices Heard. (CVH). *CDBG Basics*. PowerPoint2000. 2010. (on file with author).
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33. Available for download at: <http://develop.wikispaces.com/file/view/CDBG+Consolidated+Plan+Action+Guide-Center+for+Community+Change.pdf>
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36. Gramlich, E. (1998), 42.
37. *Id.* at 43; 24 C.F.R. § 91.200 (2011).
38. Gramlich, E. (1998), 44.
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40. *Id.*
41. 24 CFR § 91.220 (2011).
42. *Id.*
43. *Id.*
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50. 24 C.F.R. § 570.495 (a) (2011).
51. *Id.*
52. *Id.*; 24 C.F.R. § 570.011 (2011); 42 U.S.C.S. § 5311 (2011).
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67. *Id.*
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69. *Id.*
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71. 12 U.S.C.A. § 1701u(c)-(d) (2011).
72. HUD. (n.d.). Section 3 Overview. Retrieved November 8, 2011 from <http://www.hud.gov/offices/fheo/section3/Section3.pdf>.
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74. *Id.*; Section 3 applies whether "covered activities" are fully or partially funded by CDBG. Moreover, the \$200,000 threshold applies to the total amount of CDBG funding received by a jurisdiction, not just the amount spent on covered activities.
75. Even if Section 3 requirements are not triggered (i.e. when CDBG expenditures won't result in new training or employment opportunities), recipients must *still submit reports indicating that requirements were not triggered*. *Id.*
76. *Id.* As measured by AMI.
77. *Id.*
78. *Id.*
79. *Id.*
80. *Id.*

81. *Id.* Written complaints should include: 1) Name and address of complainant; 2) Name and address of subject of the complaint; 3) A description of the acts or omissions that violated Section 3 requirements; and 4) A statement of the corrective action sought. Letters can be filed at the local HUD Field Office or mailed to: The Assistant Secretary for Fair Housing and Equal Opportunity, Attn: Office of Economic Opportunity, U.S. Department of Housing and Urban Development, 451 Seventh Street S.W., Room 5100, Washington, D.C. 20410.

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85. *Id.*

86. *Id.* at 21.

87. *Id.*

88. Affordable Communities Employment Act of 2011, H.R. 3254, 112th Cong. (1st Sess. 2011).

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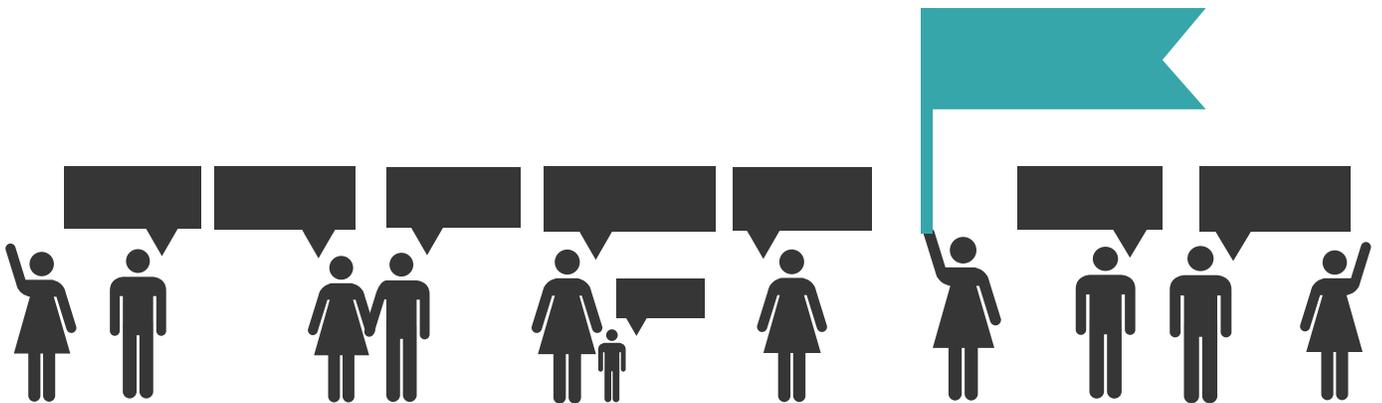
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