

*Testimony
Of
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*Information Policy, Census and National Archives
Subcommittee
Oversight and Government Reform Committee*

“Census Data and its Use in Federal Formula Funding”

*Thursday, July 9, 2009
2247 Rayburn HOB
2:00 p.m.*

Mr. Chairman, and other esteemed members of the Subcommittee, I respectfully submit the following written testimony about how census data is used in federal funding formulas.

I wish to make three points.

1. Census estimates matter to cities. They help to determine funding allocations from the federal government; inform investors like retailers and banks about where and when to invest in our cities; they ensure that city administrations make sound policy decisions grounded in accurate census data, and; they greatly influence the perception of cities.
2. The formulas used by federal agencies need to be better understood, and supported by cities. When formula grants are perceived to not reflect the need of communities, they serve as a disincentive for cities and, local governments in general, to partner with the Census Bureau and ensure the most accurate information.
3. Significant new research is required to:
 - a. Ensure that formula grants capture and reflect needs of cities;
 - b. Calculate the impact of census data on funding for local governments, and;
 - c. Support local governments’ understanding of their population change and corresponding adjustments in funding.

1. Census Estimates Matter to Cities

Census population estimates determine a city’s share of funding allocations for federal and state programs, a city’s prospects for securing private sector investment, a city’s

administrative effectiveness and efficiency, and even the public perception of cities. In short, census population estimates matter enormously to cities.

In total, over 170 federal programs incorporate census population estimates into formulas that determine the range and level of funding available to local governments. As the U.S. Conference of Mayor's 1999 survey on the fiscal impact of the census undercount demonstrated, a modest 4% census population undercount translated to \$677 million dollars of unrealized federal and state funding allocations to just 20 cities over the course of this decade.¹ America's cities stand to lose much more if funding allocations continue to be based on incomplete census information. Billions of dollars in public sector funding available to municipalities are at stake.

In addition, retailers, financial institutions and other private sector investors each year rely on census population estimates to inform their investment decisions across cities. Indeed, in the article, *The Brookings Urban Markets Initiative: Using Information to Drive Change*, author Alyssa Stewart Lee notes that "the foundation of the private-sector demographic data used for retail decisions is the U.S. Census Bureau."² Private sector models based on incomplete census population estimates will continue to drive private sector decision-making, putting cities impacted by undercounts at a distinct disadvantage.

Not only do census population estimates influence public funding formulae, define the market information used to support private sector investments, but these same indicators are used as the benchmark by which cities frame policy decisions or measure their own administrative effectiveness. Incomplete census population estimates contribute to inexact policy recommendations and inaccurate program assessments.

Similarly, census population estimates are routinely employed to position cities in popular rankings and classifications across a variety of social categories and economic touchstones ranging from "top ten cities to find a job" to the "top ten most dangerous cities". As such, incomplete census population estimates contribute, whether directly or indirectly, to the perception of place, signaling economic prosperity and opportunity or forecasting stagnation and decline.

Accurate population estimates are important to cities for many reasons. The numbers not only drive decisions regarding where and how federal and state funding is directed, private sector resource attraction and deployment, where people choose to live, and, most importantly, they drive public perceptions about the vitality of cities and regions.

1.1. Local Inputs Critical to Census Population Estimates

Though the decennial census is the most widely used of official population indicators, the Census Bureau's official *annual* population estimates, estimates of population change from the most recent decennial census updated annually, also factor heavily into various federal and state funding programs for cities.

¹ http://usmayors.org/ced/census/census_introduction.htm

² <http://www.frbsf.org/publications/community/review/062007/lee.pdf>

Each year, the Census Bureau gathers data from federal agencies, state and local governments to develop a detailed understanding of national population change. Estimates for cities are derived from these higher level estimates through adjustments based on analysis of local data, primarily new construction activity as recorded in the register of municipal building permits. Census intercepts this critical information from cities via monthly Residential Construction surveys designed to measure new construction.

1.2 Cities are working with the Census Bureau to Improve Accuracy

In 2001, in recognition of the impact of possible data discrepancies in its annual local population estimates, the Census Bureau established a process allowing local governments to challenge its population estimate and the components used to derive the population estimate for its jurisdiction for the most recent year. This program is called the Census Challenge program.

The program is seemingly as straightforward in process as it is in name, allowing local governments to contest current year population estimates through local data documenting changes in the local housing stock. Typically, this is accomplished through careful inventory of local building permit data, but may also include other data sources tracking potential change to the local housing stock such as certificates of occupancy, residential utility connections; group quarters populations, voter registration records, department of motor vehicle registrations, and/or property tax assessments.

Since 2001, 251 challenges by local governments have been recognized by the Census Bureau resulting in population adjustments of 1.78 million people to the contesting jurisdictions. When Mayor Carleton Finkbeiner successfully challenged Toledo, OH's 2007 population estimate, the city's population was adjusted from 295,029 to 316,851, an increase of 7.4%.

2. Funding Formulas can Discourage Accurate Census Estimates

Social Compact is committed to ensuring that public sector officials, investors and communities have access to the best possible information when making important policy or investment decisions. For the past decade, Social Compact has conducted its market analysis, the DrillDown, in underserved neighborhoods across 20 cities finding these communities to be far larger, safer and with greater buying power than previously thought. In more recent years, our commitment to accurate information has extended to supporting cities who have participated in the Census Bureau's Census Challenge Program. So far, Social Compact has worked with six cities across the country to provide the Census Bureau with better local data, resulting in an aggregate adjustment of almost 200,000 additional residents in the official populations of those cities.

By working with cities to participate in the Challenge Program, everyone benefits; the Census Bureau gets accurate information from cities; cities ensure they get their appropriate share of funding from federal government sources; investors get more accurate market information from which to make investment decisions with, and; communities get accurately counted. In time, there will be fewer and fewer challenges as cities recognize the value of providing the Census Bureau with regular accurate information.

A critical motivation for cities to work closely with the Census Bureau is the promise of them receiving their appropriate share of federal and state funding. Over 170 federal programs use census information in formula grants to determine funding allocations. Having fully transparent formulas that reflect the real and current needs of communities are therefore critical to ensuring that cities provide the Census Bureau with the best possible local data. When there is suspicion that formula grants that use census population figures do not reflect need, or even a lack of understanding of the process, the incentives for cities to partner with the Census Bureau diminish resulting in inaccurate annual estimates, misinformed investment decisions and policy decisions that are less informed and responsive.

Although crucial to the Census Bureau's annual population estimates, cities' response to the Census' monthly survey is voluntary per congressional mandate. Indeed, the Census Bureau estimates municipal response rates to the survey average at about 75% - 80%. Variance in response rates are likely due to municipal capacity issues including miscommunication between Census and cities resulting in surveys mailed to individuals either no longer working for the city or in different capacities, lack of understanding of the impact of the survey on population estimates, municipal prioritization, and inadequate management of municipal building permit data. In addition, out of a possible 20,000 jurisdictions, just 251 challenges have been mounted since 2001.

3. New Research is Urgently Required to Better Understand the Impact of Census Data on Funding Allocations for Local Governments

In order to ensure that more local governments provide the Census Bureau with regular accurate local data, the formulas that include population factors and are used by federal governments to determine funding for local governments need to be transparent and trusted by local governments that they accurately reflect need. Specifically:

1. There needs to be a root and branch review of formulas that have not been altered for long periods of time, this includes those used to determine CDBG Entitlement Grants. The key question here is whether or not the formulas accurately capture the existing needs of communities.
2. Greater research is urgently required on the impact of census figures on grant allocations for local governments and on the market data used by investors to make investments.
3. Once this research has been completed, cities must have the tools available to plan for changes in population and corresponding changes in funding.

The census is the best demographic database we have in the United States, but faces significant challenges with respect to underserved, urban America. It has widely been acknowledged over the past several years, that the U.S. Census Bureau undercounts poor and minority neighborhoods at a higher rate than their wealthier counterparts. Social Compact will continue to work diligently to foster mutually beneficial partnerships between local governments and the Census Bureau. By urgently addressing the three measures

outlined above in partnership with federal agencies, the Census Bureau and local governments, we will have taken a major step towards achieving our common goals.