Statement

Of

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Oversight and Government Reform

"Census Data and Its Use in Federal Formula Funding"

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Chairman Clay, Ranking Member McHenry, and members of the subcommittee, thank you for inviting me to discuss how the Department of Housing and Urban Development uses Census data, the criteria used to calculate funding for the Department's major programs, and how the Department uses the yearly Census estimates and the American Community Survey to adjust funding formulas. I will also talk abut the Department's report entitled "CDBG Formula Targeting to Community Development Need" as well as the Obama Administration's proposal to pursue formula reform in conjunction with a funding increase for the CDBG program in Fiscal Year 2010.

Allocation Formulas Using Census Data

HUD annually allocates approximately $7.8 billion directly to cities, counties, states, and Indian tribes using formulas based on Census data. An additional $2.3 billion is allocated via competitions guided by initial allocations to counties or field offices using Census data. Those formulas are:

The Community Development Block Grant Program (CDBG) that is proposed for FY 2010 to allocate $4.178 billion to more than 1,150 cities and counties directly as well as to smaller cities

and counties through their states. This is a relatively complicated dual formula but fundamentally relies on five variables from the Census Bureau. From Census 2000 sample data:

- persons in poverty;
- overcrowded households; and
- housing units built prior to 1940.

From annual population estimate data, including updated data as a result of challenges:

- number of persons; and
- growth lag, which provides more money to communities with slow population growth or population decline since 1960. That is, declining population equates to more funding.

Other programs that allocate funding using the basic CDBG formula are the Emergency Shelter Grant Program ($150 million for FY 2010) and for guiding the initial pro-rata need allocation for the Continuum of Care homeless program competition ($1.643 billion proposed for FY 2010).

A separate formula that relies on Census 2000 sample data related to various dimensions of housing need is the HOME Investment Partnership program, proposed at $1.821 billion for FY 2010.

The Native American Housing Block Grant formula, proposed at $643 million for 2010, uses a special tabulation of Census 2000 data on the housing needs of Native American households in areas identified as Indian areas and places where tribes have made substantial housing investment. The $65 million Indian CDBG program is allocated to regions using Census data as part of a competition process. The $522 million proposed for new development in the Section 202 Supportive Housing for the Elderly program in FY 2010 and $114 million for the Section 811 Supportive Housing for Persons with Disabilities program also use Census data to allocate funds by HUD field office, where competitions are held. The Housing Trust Fund, created in HERA and proposed by the President to receive $1 billion for FY 2010, would also be allocated to states using special tabulation data on housing needs.

In 2010, the Census Bureau plans to publish the first 5-year data products, based on American Community Survey (ACS) data collected in 2005 through 2009. As such, HUD would expect to use these data in its FY 2011 formula allocations in place of the Census 2000 data currently in use.

Currently, the Census 2000 sample data that allocate the vast majority of the funds under these formulas are not adjusted by population estimates and will remain static at their 2000 counts until the ACS data are migrated into the formulas. The only variables updated annually are the variables that explicitly use a count of the population – in CDBG those are population and growth lag.

Our understanding is that the 5-year ACS data will be weighted to the average of the population controls over the five year period. This is a very good thing since it leads to an integration of updated population and updated counts for all of the variables for each formula on an annual

basis. That said, the initial move to the ACS data in FY 2011 is very likely to cause some significant changes in allocation amounts for program grantees because most of the funds from the formula grant programs noted earlier are still being allocated based on Census 2000 sample data counts.

Fair Market Rents (FMRs) and Income Limits

HUD uses data from the Census Bureau for far more than the allocation formulas. One of the most important uses of the data for its programs is to calculate Income Limits and Fair Market Rents. These calculations have an enormous impact on who is eligible for a host of programs and the maximum rents HUD will subsidize, a critical component driving how much HUD pays out in housing subsidy each year. HUD programs affected by FMRs and/or Income Limits include the Public Housing program, Section 8 Housing Assistance Payments program, Section 202 Supportive Housing for the Elderly, and Section 811 Supportive Housing for Persons with Disabilities, Moderate Rehabilitation Single Room Occupancy Program, CDBG and HOME. Combined, funding for these programs is proposed at more than $34 billion for FY 2010 and serve more than 4.5 million households. Many other government programs are also impacted by these program parameters, including the Low-Income Housing Tax Credit program that has produced over 1.2 million low-income housing units.

Income Limits are calculated directly from HUD's annual median family income (MFI) estimates with adjustments for area housing costs and family size. Median family incomes come directly from ACS income data; relative housing costs are derived from FMRs. FMRs use ACS data that include gross rents, total utility costs and housing characteristics such as bedroom size, and whether the unit has a full kitchen and full plumbing. Additional census data used for rents include the year the structure was built, the year the tenant moved in, and total acreage on which the property resides.

While the ACS, conducted annually, is an enormous improvement in data currency, and therefore accuracy in time, over the Decennial Census snapshot taken once a decade, it will never provide the coverage or the statistical precision of the Decennial Census. This is because the annual ACS relies on approximately 1.9 million completed surveys annually, while the Decennial Census Long form had about 19 million completed surveys. Aggregated over five years of the ACS cycle, five year ACS data estimates will be based on approximately 10 million completed surveys, a little over half the number of completed surveys for the long form.

For Income Limits this means that, using five year data, the entire country will have a local estimate. However, estimate will be less accurate. Currently, HUD uses income estimates in inverse proportion to their margins of error. The larger the margin of error, the more HUD relies on state level as opposed to local level survey results. Margins of error for one and three year estimates are, on average, four times larger than the margins of error for Decennial Census estimates, ranging up to a full 25% of the estimate.

FMRs are based on a fraction of the data that can be used for income estimates. FMRs are calculated using the gross rent of market rate, two-bedroom, standard-quality, non-luxury, safe, sanitary rental units into which the occupant has moved recently. FMRs are expected to control

for housing quality and housing assistance (i.e. reflect market rate units). Information on housing assistance is missing entirely from the ACS and housing quality information is limited to confirmation that the unit has a full kitchen and full plumbing. Paring the universe down to two-bedroom, standard-quality units into which the occupant has recently moved eliminates approximately 80 percent of the ACS sample.

Annual ACS data that can be used to generate ideally computed FMRs is sufficient to calculate FMRs for only 2 percent of the very large FMR areas. These areas represent 55 percent of the national population. ACS three-year rent data provides sufficient sample to cover 3 percent of the FMR areas and 60 percent of the national population.

Large confidence intervals are inevitably the result of smaller sample sizes relative to the total population being measured. The larger the margin of error, the less precisely HUD programs and other formula allocations can be administered and the less accurately the program resources can be targeted to the families that need them within the legal constraints of the program. The Census Bureau can only produce estimates with smaller margins of error with the additional resources required to increase sample sizes.

Consolidated Plan and areas of Low and Moderate Income Benefit

In addition to allocation formulas and calculation of income limits and fair market rents, Census data is used for analysis and planning by HUD and HUD grantees. To participate in the CDBG and HOME programs, grantees must prepare a Consolidated Plan that analyzes their local housing needs and comprehensively plans for the use of HUD resources. To facilitate this, HUD provides special tabulations of Census data that count the number of low-income families with housing needs in every census tract. When the ACS 5-year data is available, HUD intends to have these special tabulations updated annually, and will provide the data to grantees.

Note that the CDBG program also identifies targeting of funds to areas that have a majority of low or moderate income households as meeting the national objective of benefiting low- and moderate-income persons. These areas are currently identified using Census 2000 long-form data at the Census Block Group level. Beginning in 2011, HUD intends to use ACS 5-year data at the Census Tract level to define these areas.

Formula Targeting

HUD allocates substantial resources for affordable housing and to address community needs by formula. Some formulas, such as the public housing, Housing Choice Voucher, and Project Based Section 8 programs, are driven by unit counts, contracts, and prior per unit subsidy needs, among other factors. Others like CDBG, HOME, NAHBG, ESG, and the new Housing Trust Fund are distributed using population, demographic data, and other sources such as construction costs. Housing and community development needs are not static and it is important to regularly assess whether these formulas need updating so they remain well targeted to the intended needs and treat all grantees fairly.

In 2005, HUD published a report that identified some problems with how the CDBG formula targets funds. CDBG is intended to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons. The funds are used to carry out a wide range of community development activities directed toward revitalizing neighborhoods, economic development, and providing improved community facilities and services. Entitlement communities develop their own programs and funding priorities. However, grantees must give maximum feasible priority to activities which benefit low- and moderate-income persons. A grantee may also carry out activities which aid in the prevention or elimination of slums or blight.

Each decade for the last three decades, HUD's Office of Policy Development and Research has developed a community development index to measure community development needs in America. The 2005 index uses 17 variables to measure, among other things, poverty, crime, unemployment, general economic decline, and certain housing problems. Each decade we have compared how the CDBG formula targets funds against this composite needs index. And each analysis has sharpened the picture of the opportunity we are missing. The decades-old CDBG formula increasingly allocates funding in a distorted way. The 2005 report demonstrates some stark examples of how the CDBG formula is currently not as fair as it could be.

- o It over funds some less needy places.
- o It under funds some very needy places.
- o And it allocates very different amounts of money to places with identical needs.

The current formula, on average, still targets more funds to the most needy communities, but much less so than it did in the 1970s.

There are several problems with the current formula. The current variables were identified based on 1970 Census data to serve as a proxy for community development need. Our nation has change a lot since 1970 so some of these variables are no longer good measures. A good example of this is using housing built before 1940 as a proxy for population loss, aging infrastructure and dilapidated housing. This worked in the 1970s but over time the distressed communities have torn down their old housing while less distressed communities have renovated their old homes. This has shifted dollars from distressed communities to less distressed communities. For example, since 1980, Detroit, East Saint Louis, and Newark have demolished half of their old housing while Newton, MA; Oak Park, IL; Royal Oak, MI; and Evanston, IL have retained their older housing.

Other variables are generally good at targeting to need but create anomalies. Poverty is a good example. While poverty generally is a good variable for targeting to need, it disproportionately favors college towns because Census data show a high percentage of college students, many of which are supported by their family, as being in poverty. For example, Davis, CA, a college town, has a poverty rate of 27 percent. If college students are subtracted out, Davis' poverty rate falls to 7 percent. Growth lag, the measure of population change since 1960 that provides funding for communities growing slowly or losing population, generally targets to need, but it

also funds some slow growing, well-off communities and it creates significant anomalies between similarly needy communities.

The most important problem is not as obvious. The current formula is quite complicated. At the core of the formula is that it is actually two formulas, and the grant is based on whatever formula a community gets the greater of. This dual formula creates a serious problem where communities with very similar overall need on a per capita basis get very different grant amounts. This disparity is mostly a function of this dual formula.

As you are well aware, changing the CDBG formula to correct its targeting problems is politically challenging. If funding is held static or declining, a change in the formula that results in increases in funding for some communities also results in decreases for others. In the case of CDBG, not changing the formula for over 30 years means that without a funding increase, any change to the formula that fixes the problems I've noted would result in significant increases and decreases in funding for some communities.

CDBG Reform

FY 2010, however, offers a rare opportunity to change the formula without causing a funding decrease for any community relative to their FY 2009 allocations. This is because for FY 2010, President Obama has proposed to fully fund CDBG, at $4.178 billion for the formula in 2010, representing a $543 million increase over 2009 funding. We look forward to working with the Congress to correct the problems I've highlighted. With the increase, we can fix the formula so that high need and historically underfunded communities have their grants increased while not reducing the grants below their 2009 levels for any other community. This requires a change to the authorizing language. HUD also wants to work with the Congress to establish new performance measurement and accountability standards for grantees that receive the funds. Once we have gotten the funds into the hands of communities based on their needs, HUD wants more tools to ensure that those communities are held accountable for applying those funds in a way that most effectively addresses their specific needs.

As this testimony demonstrates, the data collected by the Census Bureau is absolutely critical for HUD to run its programs. Thank you for your time, I look forward to answering any questions you might have.