



# **THE IMPACT OF CDBG ON OUR COMMUNITIES**

**Testimony of Clifford W. Graves  
General Manager, Community Development Department  
City of Los Angeles**

**TO**

**THE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT**

**APRIL 12, 2006**



The City of Los Angeles  
Community Development Department

**Services  
Resources  
Opportunities**

# The Effects of Proposed CDBG Funding Cuts on the City of Los Angeles

A Presentation by the City of Los Angeles Community Development Department

## Introduction

For more than thirty years, the Community Development Block Grant (CDBG) program has been an important tool used by state and local governments to address their most serious community development challenges. This federal program allows local jurisdictions to create decent affordable housing, to improve public works and infrastructure, and to provide public services and economic development incentives. In addition, because of the program’s flexibility, local governments have come to rely on CDBG funding as the cornerstone of community revitalization efforts. It is estimated that every CDBG dollar invested in local communities leverages three private-sector dollars for much-needed investment, job creation, and elimination of blight.

Table 1 compares the President’s FY2007 funding proposal for CDBG with federal funding for the program for FY2005 and FY2006. Under the current White House proposal, the program appropriates \$2.775 billion, or roughly \$1.0 billion less than the FY2006 funding level of \$3.711 billion. The FY2007 amount is 25 percent less than the FY2006 amount, and is the lowest level of funding since the early 1990s. Total federal funding reductions for CDBG from FY2005 through the proposed FY2007 funding level are \$1.33 billion, or –32 percent.

**Table 1** (Dollars in Millions)

<b>Program</b>	<b>FY2005 Enacted</b>	<b>FY2006 Enacted</b>	<b>FY2007 Proposal</b>
<b>Community Development Fund</b>	<b>\$4,660</b>	<b>\$4,178</b>	<b>\$3,032</b>
<i>Set-Asides:</i>			
Bonus Grants	\$0	\$0	\$200
EDI Special Purpose Grants	262	306.9	0
Nieghborhood Initiatives	42	49.5	0
Youthbuild	61.5	49.5	0
Native American Block Grants	68.4	59.4	57
Working Capital Funds	3.4	1.58	0
Brownfields	(23.8)*	0	0
SHOP	25	0	0
NCDI	33.5	0	0
Housing Assistance Council	3.3	0	0
Nat. Am. Indian Hsg Council	2.3	0	0
Nat. Housing Dev. Corp.	4.8	0	0
National Council of La Raza	4.8	0	0
Special Olympics	1.8	0	0
Section 107	43	0	0
<i>Total Set-Asides</i>	<i>555.8</i>	<i>466.8</i>	<i>257.0</i>
<b>Formula Grants</b>	<b>\$4,105</b>	<b>\$3,711</b>	<b>\$2,775</b>

\* Funded as a separate program.

Also, in part, the President’s budget proposes the following changes:

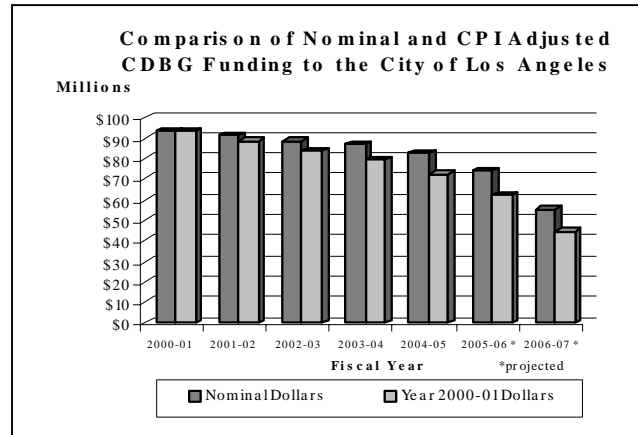
- 1) Reforms the CDBG formula to re-allocate resources from the so-called “wealthiest” communities to what the federal Office of Management and Budget considers to be the “neediest” communities;
- 2) Uses \$200 million to fund a competitive challenge grant that will reward those communities that use CDBG funding to increase home ownership; and
- 3) Consolidates the Brownfields Economic Development Initiative (BEDI), Section 108 Loan Guarantee, and U. S. Department of Housing and Urban Development’s (HUD) Rural Housing and Economic Development Program into CDBG; however, because no additional funding is proposed, presumably these programs could be eliminated.

## The Effects of Proposed CDBG Funding Cuts on the City of Los Angeles

**Funding Cuts and the Effects of Inflation.** The City's ability to meet increasing community needs is challenged by annual *decreases* in federal funding and *increases* in at-risk populations. As Chart 1 illustrates, from FY2000-01 through FY2005-06, the City has sustained cuts totaling \$19.7 million in CDBG, representing a 21 percent reduction over that five-year period. The chart also shows that the President's CDBG funding proposal will reduce funding an additional \$18.5 million, or 25 percent, to \$55.4 million in FY2006-07.

Decreases in federal funding for CDBG are further exacerbated by changes in consumer purchasing power as measured by the Consumer Price Index (CPI). From FY2000-01 to FY2006-07, the City's purchasing power for goods and services was deflated by 19 percent. As a result, although total federal CDBG funds will decrease by \$38.2 million, when adjusted to FY2000-01 dollars, CDBG will actually decrease by 52 percent or \$48.7 million.

Chart 1



### The Need for CDBG Dollars in Los Angeles is Significant

There are a number of reasons the City of Los Angeles remains an exception in the assessment of need and uses for CDBG dollars. As the nation's second largest city, Los Angeles presents unique challenges in delivering public services to at-risk or low- and moderate-income populations and encouraging private investment in order to eliminate slum and blight.

**Size and Population.** Geographically the City covers 469 square miles, larger than the *combined* land areas of Boston, Cleveland, Manhattan, Minneapolis, Milwaukee, Pittsburgh, Saint Louis and San Francisco. The City is home to about 4 million people of which approximately 1 million are under 18 years of age.

**Diversity.** Los Angeles is distinctive in its cultural heritage and diversity – roughly 41 percent of its residents are foreign born (compared to the national average of 11 percent) and more than 140 languages and dialects are spoken in its public schools. More than 1.3 million households in Los Angeles, or approximately 2 million people, speak languages other than English in the home.

**Poverty.** In 2000, the U.S. Census Bureau estimated that about 148,000 families, including 297,820 children, in Los Angeles live below the poverty level of \$17,463 per year for a family of four. The 2000 census also revealed that 436 of the City's 842 census tracts qualified as low- and moderate-income according to HUD requirements for CDBG funding. Moreover, the number of low- and moderate-income households and demand for services by families and at-risk populations continues to increase in Los Angeles. The increases, which are shown in Table 2, stand in stark contrast to national trends.

## The Effects of Proposed CDBG Funding Cuts on the City of Los Angeles

Table 2 displays a comparison of the percentage of ‘Individuals,’ ‘Families,’ and ‘Households’ living in poverty in the City of Los Angeles, California, and the U. S. Los Angeles has a greater percentage of persons living in poverty than both the state and nation. For example, Table 2 shows that 18.3 percent of families in Los Angeles live in poverty compared with 10.6 percent of the families in California, and 9.2 percent of the families throughout the United States.

Table 2

Percentage of Populations Living in Poverty*			
	<u>LA City</u>	<u>CA</u>	<u>US</u>
Individuals	22.1%	14.2%	12.4%
Families	18.3%	10.6%	9.2%
Households	18.6%	11.8%	11.8%

\* U.S. Census - 2000

Chart 2

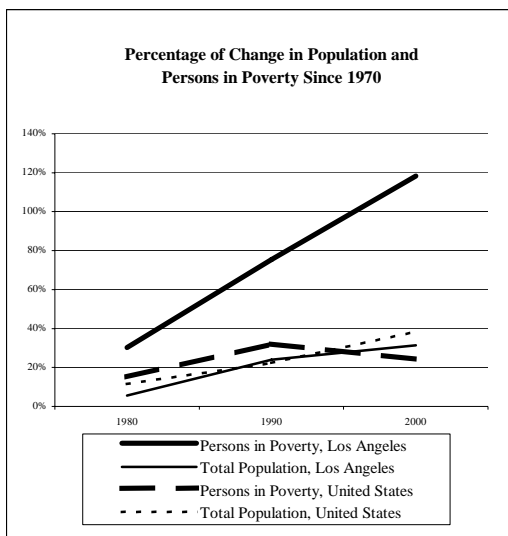
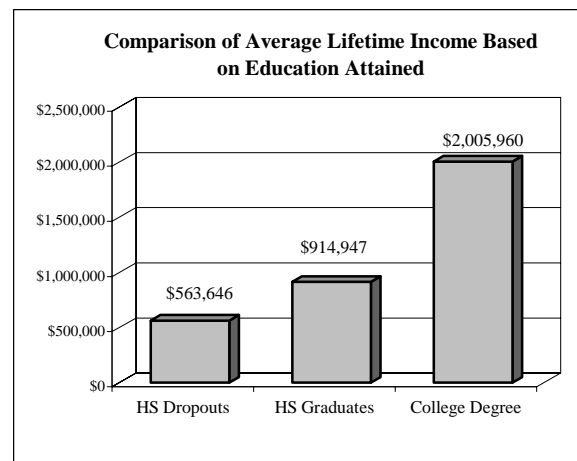


Chart 2 shows a comparison of the rates of change in the total populations of the United States and Los Angeles and the rates of change in the percentage of persons living in poverty for the populations. Although the rates of change for both the United States and Los Angeles populations were similar and relatively modest, the rate of change for persons living in poverty in Los Angeles was significantly more dramatic. The number of persons living in poverty in the United States *decreased* by about 6 percent from 1990 to 2000. However, during the same period, *the number of people living in poverty in Los Angeles increased by about 25 percent* from an estimated 640,000 persons in 1990 to an estimated 800,000 persons in 2000, or 22 percent of all Angelinos.

**Education Shortfalls.** It is estimated that of the 2.3 million people living in the City of Los Angeles over the age of 24, nearly 800,000 did not graduate from high school or receive a general equivalency diploma (GED). Because of the cost of living in Los Angeles, the impact of this education shortfall is particularly problematic for this City’s residents. It is estimated that the lifetime earnings for the average high school drop-out residing in Los Angeles is \$564,000 compared to \$915,000 for a high school graduate, a 38 percent difference. Furthermore, a high school dropout will earn a staggering \$1.44 million less than a college graduate over a lifetime.

Chart 3



## The Effects of Proposed CDBG Funding Cuts on the City of Los Angeles

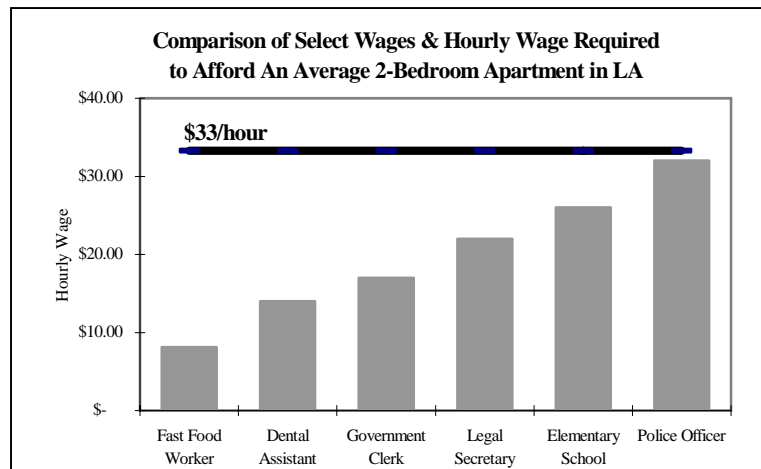
The economic impact of the education shortfall does not bode well for Los Angeles youths. A recent study found that 100,000 of this City's young people between the ages of 19 to 24 years were "out of school and out of work." The disconnection between youths and education will significantly hinder this population's development of marketable skills, thereby limiting future employment opportunities and reducing lifetime earning potential.

**Unemployment and Under-Employment.** Many socio-economic factors, such as education, transportation and access to childcare, affect an individual's employment and economic opportunities. From 2000 to 2005, unemployment in Los Angeles averaged about 6.8 percent of the civilian labor force as compared to the national average unemployment rate of 5.2 percent. The City's high unemployment rate is further magnified in CDBG targeted areas where the unemployment rate often exceeds twice the City average.

### **Housing Challenges.**

Soaring rents and skyrocketing home prices in the Los Angeles area have created a lack of affordable housing and undermined programs intended to help low- and moderate-income residents. The average cost of a home in Los Angeles is more than a half million dollars and the average rental cost for a two-bedroom apartment is approximately \$1,700 per month.

Chart 4



These high housing costs mean that an annual income of more than \$130,000 would typically be required for the median-priced home in Los Angeles, and a wage of about \$33 per hour would be the norm for the average two-bedroom apartment rent. Chart 4 shows how difficult it is for a variety of wage earners in Los Angeles to afford a standard apartment rental.

Despite the traditional American Dream vividly featuring a picture of homeownership, that dream is fading and unlikely to be attained for low- and moderate-income people living in Los Angeles. As a result of conditions summarized above, the proposed Presidential plan to use \$200 million to reward those communities that use CDBG funding to increase home ownership will clearly provide less of a benefit to the City of Los Angeles.

### **How Does CDBG Funding Assist People in Need in Los Angeles?**

The Community Development Department (CDD) is the primary administrator for the Community Development Block Grant for the City of Los Angeles. This department establishes partnerships with community-based organizations to identify and serve low- and moderate-income communities and to develop strategies to effect long-term social and

## **The Effects of Proposed CDBG Funding Cuts on the City of Los Angeles**

economic change. The CDD targets its goals by focusing its efforts and CDBG resources towards activities that:

- 1) Provide low- and moderate-income individuals and families with the “tools” required to make the transition from dependence on social programs to self-sufficiency;
- 2) Identify and assist at-risk youths before they engage in activities that lead to destructive lifestyles; and
- 3) Facilitate community and economic development activities that lead to the revitalization of “distressed” communities, as well as employment for low- and moderate-income persons.

***Individual/Family Services.*** One example of how the City effectively uses CDBG is the Community Development Department’s human services programs. These programs address the many needs of lower income families and individuals, and support their efforts to achieve stability and self-sufficiency through networks of services and activities.

These networks of community-based organizations offer convenient access to information and referrals; essential social and supportive services; comprehensive case management for individuals and families; and opportunities for involvement in community improvement efforts. Additionally, the service providers have the capability of designing and implementing new programs that meet the particular needs of persons in different areas, which is important in a city as large and diverse as Los Angeles.

Although the above programs serve thousands of persons each year, there is still much work to be done to serve the large number of individuals, families, and communities in need. The President’s proposed CDBG budget reduction will worsen the situation by diminishing the ability of the City and community-based organizations to focus on long-term solutions for their most challenging and at-risk clients. Instead, it may be expected that CDBG-funded entities will use their reduced budgets to only address the superficial needs of their clients, which lessens the lasting impact of these programs.

***Domestic Violence.*** The City of Los Angeles must contend with some difficult issues involving public safety. For example, each year, the Los Angeles Police Department responds to over 50,000 incidents of domestic violence. Economic losses to victims include increased sick leave and absenteeism, lost wages, and decreased productivity. Societal costs include the maladjustment of children resulting in increases in academic failure, drug use, gang activities, welfare, and imprisonment. In addition, domestic violence decreases the number of stable income producing family units, and propagates the generational cycle of domestic violence.

The CDBG funding supports several City programs that focus on the issues of domestic violence. For example, these funds are used to help create emergency and transitional shelters that offer short-term refuge from imminently dangerous or life-threatening home environments. Additionally, these funds are used to provide services that address the basic needs of domestic violence victims and their children, which includes providing public assistance and advocacy information, and case management and counseling.

## **The Effects of Proposed CDBG Funding Cuts on the City of Los Angeles**

**Youth Services.** There are currently about 297,000 youth under the age of 18 living in poverty in Los Angeles, including 215,000 who are under the age of 12. Los Angeles also has 39,022 gang members in 729 gangs. As this City's youth arrive at critical periods in which they are faced with life-altering alternatives, they need to have the knowledge, skills, and abilities to improve their options and their lives.

The Community Development Department's efforts for assisting youth are manifested in CDBG-funded programs such as the following:

- *L.A. Bridges Program* is a gang prevention and intervention program that redirects youth from gang activities. This program involves collaborating with parents, educators, law enforcement agencies, community based organizations, and elected officials to identify and guide at-risk young persons towards positive opportunities and lifestyles.
- *Youth Opportunity Movement* is a CDD-administered program that partners with approximately 30 community-based organizations to provide academic and career guidance for youth, ages 14 through 21 years, in the City's most impoverished areas. The goal of this program is to engage young persons in activities that contribute to their long-term economic well being, including education, vocational training, and work experience.
- *LA's Best* is a supervised after-school educational and recreational enrichment program provided to 21,000 youth, ages 5 to 12 years, at more than 130 schools throughout Los Angeles. A recent study by the University of California found that participants in this program are 20 percent less likely to drop out of school compared with those who do not attend the program.

Despite the successes of this City's CDBG-funded programs, the need for youth services far exceeds the current resources. However, CDBG funding reductions will only lessen the number of young people who will be able to receive the necessary attention to ensure that they are safe and skilled in order to succeed in school, at work, and in life.

**Economic/Neighborhood Development.** The City uses CDBG funds and private sector resources for economic and community development that encourages businesses to create jobs, provide goods and services, and improve neighborhoods. Examples of programs that have used CDBG funds for economic and neighborhood development include the following:

- Technical assistance and financial incentive programs for businesses to ensure that existing and emerging micro-enterprises, medium-size businesses, and growth industries are attracted to and retained in Los Angeles, particularly impoverished and/or blighted areas, some of which have been designated as Empowerment, Community Renewal, and Enterprise Zones.
- Financing assistance to businesses, including grants, loans and bonds, using CDBG, as well Section 108, Economic Development Initiative (EDI), and Brownfield Economic Development Initiative (BEDI) federal funding, to leverage private equity

## **The Effects of Proposed CDBG Funding Cuts on the City of Los Angeles**

- and other investments in commercial and retail activities, particularly where the impact can be significant in catalyzing development and job creation.
- Employment programs that have either been funded by CDBG or linked with CDBG programs to better ensure the development of a workforce that has the necessary skills, knowledge, and abilities, as well as workplace experiences and supportive resources, to meet the challenges of the 21st century marketplace.

There are some noteworthy illustrations of how Los Angeles has leveraged these CDBG-based financing, assistance and incentive programs to develop important projects and neighborhood change. For example, the City used about \$5 million in Section 108 loan authority to help develop the \$37 million Old Bank District commercial/residential project that initiated the adaptive re-use of obsolescent buildings that has resulted in a multi-billion dollar construction boom in downtown Los Angeles. Additionally, the City and Los Angeles Community Development Bank used CDBG and Section 108 funds in order to initiate and develop the Chesterfield Square project, which was the first major shopping center in south Los Angeles in over a decade, which created over 500 jobs and numerous commercial and retail stores for the community.

However, if CDBG funding is reduced as proposed in the President's FY2007 budget, there will be significantly less money to assist businesses in locating to, staying in, and expanding within Los Angeles, particularly in slum and blighted areas of this City.

### **Conclusion**

With over 800,000 residents living in poverty, including hundreds of thousands of people with limited access to education, employment, and housing, the City of Los Angeles faces severe challenges in meeting the vast array of social and economic needs of individuals, families and communities. Moreover, the large, growing and diverse population of Los Angeles has created a dynamic situation that makes this City very distinct in terms of the volume and variety of issues.

In order to contend with this situation, the City of Los Angeles has used Community Development Block Grant funds in conjunction with other resources to develop a system of programs that provide a mix of services that assist youth and seniors, homeless and disabled, businesses and neighborhoods, and a wide variety of other low- and moderate-income persons. However, current and past experiences have shown that there needs to be a serious and reliable commitment of CDBG funding in order to overcome deep-rooted social and economic problems, as well as to address immediate crises and basic needs.

Within this context, the President's FY 2007 proposed funding reductions for the CDBG program (in addition to subsequent years of federal funding cuts) would have a devastating effect upon this City's ability to offer necessary and quality services to the numerous, various and geographically-dispersed people in Los Angeles who require assistance. Therefore, decision-makers should carefully consider the short- and long-term effects of reducing federal support for CDBG and support local governments' efforts to assist their most needy and at-risk populations.