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NOVEMBER 3, 1983

The Honorable Michael S. Dukakis
 Governor of Massachusetts
 Boston, Massachusetts 02133



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Dear Governor Dukakis:

Subject: Massachusetts' Early Implementation of the Small
 Cities Community Development Block Grant Program

Enclosed is our final report which describes Massachusetts' decisionmaking process in implementing the Small Cities Community Development Block Grant Program as authorized by the Omnibus Budget Reconciliation Act of 1981. It also provides a comparison of 1982 State-funded activities and populations targeted with those of the Department of Housing and Urban Development (HUD) in 1981 and provides local communities' and others' perceptions of the success of Massachusetts' program. Massachusetts was one of seven States we visited to provide the Congress with up-to-date information on States' progress in implementing their Small Cities Program. We previously sent you a copy of our overall report to the Congress, "States Are Making Good Progress in Implementing the Small Cities Community Development Block Grant Program" (GAO/RCED-83-186, Sept. 8, 1983), which incorporated the results of our work in seven States. The enclosed report details results of our review in Massachusetts.

Essentially, we found that the 1981 HUD- and 1982 State-administered Small Cities Programs are predominately alike. The activities funded are similar--primarily housing rehabilitation, public facilities, and economic development. Furthermore, on the basis of application data, primarily low- and moderate-income persons are expected to benefit from both programs' activities. (See enc. III.)

One difference we observed was that under the State program, nearly all the communities obtaining grants received other sources of funding for their projects, whereas under the HUD program, only about one-quarter of the grants involved other funding. Massachusetts' grants were supplemented by about \$25 million in other funds and HUD's grants were supplemented by about \$8 million in other funds. (See enc. III.)

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State officials believed their Small Cities Program meets local community needs and solicits public input better than the former HUD-administered program. HUD regional and area office officials concurred with this assessment. Public interest group officials generally believed the State program is better than the former HUD program in soliciting and responding to public comment, providing technical assistance, and meeting local needs. Finally, grantees' and unsuccessful applicants' views on the State program generally were favorable. Some unsuccessful applicants, however, were dissatisfied with the State's grant award process and technical assistance. Nevertheless, in comparing the State and HUD programs, the majority of the grantees and unsuccessful applicants considered most State program aspects as being equivalent or better. (See enc. IV.)

Most State and local officials and public interest groups favorably viewed the State public participation process. The State sought public input through a public hearing, although this did not result in significant changes to the program. (See enc. II.)

The Secretary of the Executive Office of Communities and Development provided comments on our draft report in a March 14, 1983, letter. (See enc. VI.) The secretary generally agreed with our presentation on the Massachusetts Small Cities Program, noting that the transfer of the program to States has provided the opportunity for new and more effective program design and implementation. The secretary specifically referred to Massachusetts' success in providing, for the first time, smaller communities with access to block grant funds (35 percent of the 82 grantees are new to the program); leveraging funds from public and private sources; and encouraging public participation in the Small Cities Program design.

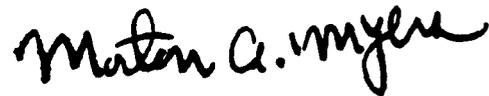
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Enclosure V of this report contains detailed information regarding the objectives, scope, and methodology of our review.

Copies of this report are being sent to Massachusetts' President of the Senate, Speaker of the House, and U.S. congressional representatives; the HUD regional administrator responsible for Massachusetts; and other interested parties.

Thank you for the cooperation of and time spent by State officials in assisting us during our review. Without their full cooperation and assistance, we most likely could not have provided early input to the March 1983 Community Development Block Grant Program reauthorization hearings.

Sincerely yours,

A handwritten signature in black ink that reads "Morton A. Myers". The signature is written in a cursive style with a large, prominent initial "M".

Morton Myers
Regional Manager

Enclosures - 6

C o n t e n t s

		<u>Page</u>
ENCLOSURE		
I	INTRODUCTION	1
	History of the Small Cities Program	1
	Overview of State program	4
II	DESCRIPTION OF STATE AND LOCAL DECISIONMAKING PROCESS	6
	Massachusetts designed its program emphasizing public participation	6
	Massachusetts generally adhered to its funding distribution method and selection criteria	11
	Conclusions	17
III	COMPARISON OF HUD- AND STATE-FUNDED ACTIVITIES AND POPULATION TARGETED	19
	Major activities funded under HUD's 1981 program and the State's 1982 program	19
	Benefits targeted to low- and moderate- income persons under the 1982 State program versus the 1981 HUD program	22
	Conclusions	23
IV	PERCEPTIONS: COMPARISON OF STATE AND HUD-ADMINISTERED PROGRAMS	24
	State, HUD, and other views on State and former HUD programs	24
	Views of grantees and unsuccessful applicants	25
	Conclusions	33
V	OBJECTIVES, SCOPE, AND METHODOLOGY	35
VI	Letter dated March 14, 1983, from Secretary Amy S. Anthony, Executive Office of Communities and Development, Massachusetts	39

ABBREVIATIONS

EOCD	Executive Office of Communities and Development
HUD	Department of Housing and Urban Development

INTRODUCTION

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) substantially changed the administration of various Federal domestic assistance programs. The act consolidated numerous Federal categorical programs into nine block grants and shifted primary administrative responsibility to the States, with Federal agencies retaining a stewardship role. Of the nine block grants enacted, four related to health services, two to social services, one to low income energy assistance, one to education, and one to community development. Six of the block grants were newly created and three involved changes to existing ones. Under the provisions of the act, States are provided greater discretion, with certain legislative limits, to determine programmatic needs, set priorities, allocate funds, and to establish oversight mechanisms. Since passage of the act, a great deal of interest has been expressed by the Congress, as well as the public and private sectors, on what impact the new approach to block grants is having on services provided to the people.

We are reviewing the Small Cities Community Development Block Grant Program and the other eight block grant programs to provide the Congress with detailed information on State implementation of these programs. This report provides information on the Small Cities Program in the State of Massachusetts. Specifically, it describes the decisionmaking process used to design the State program including how the State met its public participation certifications; the State process of selecting local funding recipients in 1982; a comparison of State funding of community development activities in 1982 with Department of Housing and Urban Development (HUD) funding in 1981; and local communities' and others' perceptions of how Massachusetts is administering the 1982 Small Cities Program compared with how HUD administered the previous program.

HISTORY OF THE SMALL CITIES PROGRAM

The Small Cities Program began with passage of the Housing and Community Development Act of 1974 (Public Law 93-383). Title I of this act created the Community Development Block Grant Program. It replaced several former categorical grant and loan programs under which communities applied for funds on a case-by-case basis. The primary objective of title I was the development of viable urban communities by providing decent housing and suitable living environments and by expanding economic opportunities, principally for low- and moderate-income persons.

The program allowed communities two types of grants--discretionary and entitlement. Small communities in metropolitan areas and communities in nonmetropolitan areas were eligible to receive annual discretionary grants. These communities were

made up largely of cities having a population of under 50,000 that could receive funding only through a competitive process. Funds were awarded at HUD's discretion after it considered applicant proposals. Known initially as the discretionary grant program, the program evolved into the current Small Cities Program. Annual entitlement grants were made to cities with populations of over 50,000, central cities of standard metropolitan statistical areas, and some urban counties with populations of over 200,000.

Subsequent amendments to title I of the act made a number of changes to the program. For example, the Housing and Community Development Act of 1977 (Public Law 95-128) redesignated the discretionary grants portion of the program to what is known today as the Small Cities Program. This act also authorized HUD to make two types of programs available to small cities--comprehensive and single-purpose grants. Comprehensive grants involve commitments for periods of up to 3 years to carry out two or more activities that address a substantial portion of community development needs within a reasonable period of time. Single-purpose grants are for one or more projects that consist of one or a set of activities to meet a specific community development need.

Before passage of the Omnibus Budget Reconciliation Act of 1981 on August 13, 1981, two States--Kentucky and Wisconsin--participated in a HUD-authorized demonstration to test States' ability to administer the Small Cities Program. The demonstration was undertaken to determine whether an expanded role for States in the Small Cities Program would increase the effectiveness of the program in meeting the needs of distressed areas and low- and moderate-income persons. Kentucky and Wisconsin were selected from a pool of nine States which applied to participate in the demonstration, primarily because they had the staff and resources to carry it out and had a record for State activities compatible with the objectives of the Small Cities Program. According to HUD, the results of the demonstration indicated that the States had the capacity to administer a Federal community development program with the cooperation of small communities.

Title III of the Omnibus Budget Reconciliation Act of 1981 substantially revised the Small Cities Program. Although the primary objective of carrying out community development activities that principally benefit low- and moderate-income persons remains unchanged, HUD regulations (24 CFR Part 570) on the State-administered program state that this overall objective is achieved through a program where the projected use of funds has been developed to give maximum feasible priority to activities which will benefit low- and moderate-income families or aid in the prevention or elimination of slums or blight. The projected use of funds may also include activities which the grantee certifies are designed to meet other community development needs

having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available to meet such needs.

The 1981 act put State and local officials more clearly at the center of the decisionmaking process and reduced the discretionary power that HUD held over program decisions. States could assume primary administrative responsibility for the Small Cities Program, including distributing funds under a State-developed program. States are free to develop purposes and procedures for distributing funds as State and local priorities dictate, subject to the objectives and other requirements of the act. In fiscal year 1982, 36 States and Puerto Rico elected to administer the Small Cities Program. As of August 1983, 46 States and Puerto Rico elected to administer the program for fiscal year 1983. Hawaii, Kansas, and Maryland have decided not to administer the program, while New York needs approval of its legislature before notifying HUD of its intention to administer the program. Small communities in those States not accepting primary responsibility for administering the program or failing to submit required certifications can still receive small cities grants from a HUD-administered program.

The Omnibus Budget Reconciliation Act of 1981 requires each State electing to administer the program, in lieu of preparing a block grant application, to prepare a statement of community development objectives and its projected use of the funds. The projected use of funds shall consist of the method by which the State will distribute funds to units of local government. The act provides that each State must certify, among other things, that the projection of how funds will be used has been developed in a way that gives maximum feasible priority to benefiting low- and moderate-income people or preventing slums and urban blight. The projected use of funds may include activities that the State certifies have been designed to meet community development needs of particular urgency because existing conditions pose a threat to the health and welfare of the community and other financial resources are not available to meet those needs. The 1981 act also sets forth specific requirements to permit public examination and appraisal of the proposed and final statement of objectives and projected use of the funds, to enhance the public accountability of States, and to facilitate coordination of activities with different levels of government. The States are required to certify to HUD that they met these requirements.

As structured under the Omnibus Budget Reconciliation Act of 1981, 30 percent of the funds appropriated to the Community Development Block Grant Program are allocated to the Small Cities Program after deducting funds allocated to the Secretary's Discretionary Fund. After determining the amount of funds available for the Small Cities Program, grants to individual States are calculated on the basis of two formulas

that existed under prior law. One formula takes into consideration poverty, population, and overcrowded housing. The other formula considers poverty, population, and age of housing stock. The allocation to each State is based on whichever formula yields a higher level of funds.

In fiscal year 1982, \$1.019 billion was allocated among the 50 States and Puerto Rico for the Small Cities Program, compared with about \$926 million in fiscal year 1981.

OVERVIEW OF STATE PROGRAM

On August 26, 1981, the Governor of Massachusetts announced his decision to seek administrative responsibility for the Small Cities Program. The principal reason for this decision was to make the program more responsive to local community needs. In March 1982, the State formally requested control of the Small Cities Program and in April 1982, HUD awarded Massachusetts a grant of about \$26.5 million. The Governor designated the Executive Office of Communities and Development (EOCD) as the State agency responsible for administering this grant.

To integrate the ideas and recommendations of local officials into the State program, the Secretary of EOCD established a Small Cities Advisory Task Force which included representatives from (1) eight small city governments, (2) a private citizen housing and planning association, (3) two regional planning agencies, (4) the Massachusetts Legislature, and (5) the State's chapter of the National League of Cities. The task force, working with EOCD, established the Small Cities Program objectives, priorities, and eligible activities--all of which directly parallel those of the Federal Small Cities Program. The task force and EOCD also developed the program's application form and procedures, eligibility criteria, and distribution methodology (review and selection process). In addition, task force representatives met informally with city and town officials to solicit their views on the program. Throughout this process, HUD's involvement by choice was minimal and consisted primarily of reviewing the State's proposed program statement and suggesting minor changes which EOCD adopted.

The overall objective of the Massachusetts program is to fund neighborhood revitalization and economic development/commercial revitalization projects that primarily benefit low- and moderate-income people. Grants range from \$100,000 to \$700,000 and are awarded for 1- or 2-year periods. In September 1982, EOCD awarded 31 fiscal year 1982 grants totaling about \$13.6 million. As of December 1982, only one grantee had completed more than 10 percent of its project. EOCD also awarded an additional 15 grants totaling approximately \$12.4 million to fulfill prior HUD multiyear commitments. Our review does not address these 15 grants because they were not originally funded

under the State program. The State set aside the remaining \$500,000 for its administrative costs.

DESCRIPTION OF STATE AND LOCALDECISIONMAKING PROCESS

As part of its final program statement, Massachusetts certified to HUD that it had taken specific steps to solicit public input when designing its program. The primary input into designing the Massachusetts' program came from the Small Cities Advisory Task Force. Input was also sought through a public hearing but did not result in any significant changes to the program. Most State and local officials and public interest groups favorably viewed the State public participation process. At the local level, community governments received help from individual citizens and citizen groups and used formal needs assessments when formulating plans for specific Small Cities Program projects.

Massachusetts used a two-phased competitive selection process to award Small Cities Program grants. This process included a preapplication and final application that was used to measure a community's overall need, project impact, project feasibility, local commitment, and housing policy practices. Our review showed that Massachusetts distributed funds in accordance with the procedures outlined in its program statement provided to HUD with one minor exception--not assigning numerical scores before final selection.

MASSACHUSETTS DESIGNED ITS
PROGRAM EMPHASIZING PUBLIC
PARTICIPATION

On April 13, 1982, the Secretary of EOCD certified to HUD that Massachusetts had taken the following steps to solicit public input:

- Given citizens information concerning the amount of funds available for proposed community development and housing activities and the range of activities that may be undertaken.
- Published a proposed statement to give affected citizens or local governments an opportunity to examine and submit comments on the proposed statement and on the community development performance of the State.
- Made the final statement available to the public.
- Held one or more public hearings to obtain citizens' views on community development and housing needs.

How State public participation requirements were met

To meet the first three certifications, EOCD mailed copies of its (1) newsletter informing communities about the State's proposed Small Cities Program, (2) proposed program statement, and (3) final statement to about 1,100 people throughout Massachusetts. According to the Small Cities Program Assistant Director, this mailing list included elected chief officials, legislators, community development directors, planning boards, and redevelopment and housing authorities. Although EOCD sought written comments on its proposed program statement from about 1,100 people, the assistant director stated that few people responded and most comments were oral. Furthermore, the comments received did not significantly alter the proposed program statement.

EOCD used its mailing list along with several major newspaper advertisements to announce the one public hearing that its executive staff held in Gardner, Massachusetts, on December 17, 1981. The purpose of this hearing was to solicit written and/or oral comments on the State's proposed program statement for its Small Cities Program. Twenty-three people attended this hearing. City and town officials accounted for 15 attendees; two regional planning commissions accounted for 6 attendees; and the remaining 2 attendees were from a private community development consulting firm. The Assistant Director of EOCD stated the public hearing participants provided very little feedback on the proposed statement. In fact, no comments by hearing attendees resulted in significant changes to the statement.

EOCD also held a series of six training workshops throughout the State during the period April 1-8, 1982, to familiarize participants with the final statement and respond to any questions. According to an EOCD report, a total of 287 people attended one or more of the training sessions. About 122 communities were represented as were several regional planning agencies and community development consultants.

Through a questionnaire, we contacted all fiscal year 1982 grantees and a sample of the unsuccessful applicants to determine if the State (1) informed them of its intention to have a program before providing information on procedures and requirements for program participation, (2) provided them with specific program information, (3) gave them the opportunity to provide input into the State's program design, and (4) provided them with the proposed draft procedures and/or regulations for comment before finalizing them. Our questionnaire results showed that:

- The State informed about 97 percent of the grantees and 94 percent of the unsuccessful applicants of its intention to have a program before providing information

on procedures and requirements for program participation. State program information to communities was provided by the following means.

<u>Communication method</u>	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Mailings	97	97
Meetings	71	76
Individual communications	32	24
Other	16	9

--The State provided the following program information to grantees and unsuccessful applicants.

<u>Information provided</u>	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Program goals	100	97
Eligibility requirements	90	91
Grant awards process	81	79
Administrative requirements	71	76

(EOCD's Small Cities Program Director stated if applicants received program goal information, they also would have received information on eligibility and administrative requirements and the grants award process. All these items were discussed in the draft program statement given to each applicant.)

--The State asked 58 percent of the grantees and 30 percent of the unsuccessful applicants for input into the design of the program. Of these, however, only 50 percent of the grantees and 10 percent of the unsuccessful applicants responded.

--The State provided 43 percent of the grantees and 45 percent of the unsuccessful applicants copies of the proposed draft procedures and/or regulations for comment, however, most of these communities did not provide comments to the State.

How State public participation activities were viewed

All affected parties favorably viewed Massachusetts' efforts to solicit public input into the development of its Small Cities Program.

EOCD's Small Cities Program Assistant Director said the State made a greater effort to solicit public participation in its Small Cities Program than it did in any of its other block grant programs or than HUD did in its Small Cities Program. For example, EOCD established a Small Cities Advisory Task Force for soliciting city and town comments. The State did not use a similar task force in any of the other block grant programs nor did HUD in its Small Cities Program. The assistant director also pointed out that EOCD held a series of six training sessions to inform towns on how to apply for funds, whereas HUD held only one training session. Furthermore, Massachusetts encouraged public participation by having cities and towns report to only one person, the Secretary of EOCD. Under the HUD program, applicants reported to several different people.

Small Cities Program fiscal year 1982 grantees and unsuccessful applicants generally felt Massachusetts' public participation activities were adequate. For example, questionnaire results showed that about 74 percent of the grantees and 68 percent of the unsuccessful applicants believed the extent of their communications with the State was at least adequate. In contrast, about 23 percent of the grantees and unsuccessful applicants believed that communications with the State were less than adequate. Only one grantee and a few unsuccessful applicants labeled the adequacy of the State's communications as much less than adequate.

Public interest groups' views on Massachusetts' public participation process were also favorable. Executive directors of the two groups contacted, who were both on the State's Small Cities Advisory Task Force, stated they were not aware of any groups that did not get the opportunity to comment on the State's program design. Both directors said the Small Cities Program provided the best opportunity for public comment of any program they could think of. Both also stated that a draft program statement was sent to every group in the State for comment. Also, EOCD formulated a task force to solicit input. Both were unaware of any areas where the State needs to improve its public participation activities.

How local communities designed their programs

Most fiscal year 1982 grantees received help from individual citizens and citizen groups and used formal needs assessments when formulating their plans for Small Cities Program projects. This input along with the general knowledge of community officials were cited as the most important factors in selecting projects for the community's Small Cities Program funding application.

In responding to our questionnaire, about 97 percent of the grantees stated persons outside their community governments helped develop plans for carrying out projects and activities

under the Small Cities Program. Grantees most frequently cited the following groups as contributors to the development of local plans:

<u>Contributors</u>	<u>Grantees</u> (percent)
Individual citizens	68
Citizen groups	52
Consultants or contractors	39
Regional advisory councils	23

When asked how input was provided, about 90 percent of the grantees stated that individual citizens and citizen groups helped develop their communities' plans through public hearings, while 74 percent stated that citizen input was obtained through public meetings. Only 48 percent of the grantees cited individual visits, telephone calls, or letters to community government officials as the means by which input was provided.

Eighty-four percent of the grantees stated a formal assessment of community needs was conducted prior to submitting their funding applications under the Small Cities Program. About 77 percent of the grantees stated that the community government conducted the needs assessment, while 19 percent of the grantees stated that consultants or contractors assisted. The procedures most frequently cited in conducting the needs assessments are listed below:

<u>Procedures</u>	<u>Grantees</u> (percent)
Visual inspections of community conditions	77
Review of community statistical data	68
Review of U.S. Census data	61
Household surveys	55

Finally, grantees responding to our questionnaire cited the following factors as being important in selecting projects and activities for inclusion in the community's funding application under the Small Cities Program:

<u>Factors affecting selections</u>	<u>Grantees</u> (percent)
General knowledge of community officials	97
Needs assessment	93
Individual citizens' comments	84
Potential for attracting other funding	74
Citizen groups' comments	74
Suggestions from State officials	55

Other less significant factors mentioned included Federal funding reductions of existing activities and previously prepared master plans.

MASSACHUSETTS GENERALLY ADHERED
TO ITS FUNDING DISTRIBUTION METHOD
AND SELECTION CRITERIA

In its program statement provided to HUD, Massachusetts reported it would distribute funds through a competitive process whereby all eligible cities and towns would be invited to participate. A two-stage application process consisting of a pre-application and final application would be used to measure the community's overall need, project impact, project feasibility, local commitment, and housing policy practices. Only communities successfully completing the preapplication phase would be invited to submit final applications. Both application phases would be basically alike except that in the final proposal phase, numerical scores would be used to determine eventual grant recipients. Several changes in the fiscal year 1983 program are being considered.

Process for selecting small cities grantees

Massachusetts used a two-phase competitive selection process to award Small Cities Program grants. Applicants successfully competing in the preapplication phase were invited to submit final applications. Once the finalists were ranked, grants were awarded until funds were exhausted.

Preliminary and final application reviews

Massachusetts' competitive selection process was designed so that in both the preapplication and final application phases, each application received three evaluations. Two EOCD teams performed the first two evaluations. Team leaders and the EOCD Secretary and two assistant secretaries then made the final evaluations and selections. These final selections were then reviewed by the Governor.

EOCD staffed each team with individuals who had experience in neighborhood or economic development or who had general knowledge about community development issues. The Small Cities Program Director stated these varied work experiences brought expertise to the selection process which ensured that each application was evaluated not only on its content but also on individual team members' knowledge about the community.

The evaluation process for both review phases consisted of several steps. First, according to the program director, a detailed briefing and written materials on what to look for in evaluating applications were provided to all team members.

Second, applications were broken down into three groups: neighborhood revitalization, economic development/commercial revitalization, and those which addressed both activities. Third, team leaders assigned each team member (called a reviewer) an equal number of applications to review, summarize, and rate. Fourth, the reviewers checked each application for completeness to determine whether it was competitive on its own merit. To be competitive on its own merit, the application had to meet at least one national objective and one State objective and had to address the four threshold criteria to show that

- a significant need existed,
- a substantial positive impact would be generated,
- the community had the capacity to design and implement the project or had made plans to obtain that capacity, and
- the community had formulated an open housing policy and promoted affordable housing opportunities.

After reviewers summarized and rated their assigned applications and the other team members had read each application, the team met to discuss all applications in detail. Team members were encouraged to provide information about a community that was not included in the application. The comments, however, were not always documented.

Preapplication phase ratings

In the preapplication phase, 122 applications were evaluated and rated. Although EOCD had written criteria for reviewers to consider when reviewing the preapplication's five components (justification of need, project description, project impact, management capacity, and housing policy statement), these criteria were subjective. For example, reviewers had to use their own judgment to decide if a need was significant or whether the project impact was great enough to warrant funding. Once the reviewers summarized all applications assigned to them, they gave each application an overall rating of "highly competitive, competitive, or not competitive"; however, nothing was written on how to distinguish between a highly competitive and competitive preapplication. The program director said this was discussed at the detailed briefing; a highly competitive application was one reviewers believed demonstrated the greatest impact upon the low- and moderate-income population, compared with other applications reviewed.

The same criteria were used to rate preapplications when the team members met in a group. Once the team reached a consensus rating for each application, the assistant director said the team leader listed applications according to their rating.

This completed the first round of review and evaluation. The teams then exchanged applications and repeated the cycle without knowing how the other team had rated the applications. The director believes the process minimizes the subjectivity that could have occurred had only one person been responsible for reading and summarizing an application.

After the first and second rounds of reviews and evaluations were completed, the Director of EOCD's Small Cities Program office and the Assistant Director of EOCD met to list the applicants in alphabetical order along with both teams' ratings. The team leaders then met with the secretary and two assistant secretaries to discuss each application in detail as had been agreed upon by their individual teams. In this round of review and evaluation, the secretary and assistant secretaries also provided their knowledge of a city or town.

As a result of this preapplication process, 44 of the 122 applicants were invited to compete in the final application phase. In some cases, the level of funds requested in the preapplication was reduced because some parts were not as competitive as others. Finalists were encouraged to submit an application for those parts of the preapplication that were most competitive.

Final application phase ratings

The final application phase was similar to the preapplication phase. The review and evaluation process was the same, but more detailed guidelines were provided on how to evaluate applications. The primary differences were in the way applications were rated and then ranked according to their ratings.

Finalists were asked to submit proposals with seven primary components--the five components of the preapplication and local commitments and certifications. Each component of the proposal, with the exception of the certifications section, was to be evaluated by the reviewer. However, instead of assigning an overall rating to each application, reviewers rated three of the components in the applications: justification of need, commitment, and project impact. Reviewers were required to rate the three components as being highly competitive, competitive, and not competitive. Reviewers had to use their own judgment to interpret the degree of "significance" of the needs identified in projects and the "substantialness" of the impact. The Small Cities Program Director stated a project's competitiveness with other projects was considered in determining the significance of the need or the substantialness of the impact.

Once the reviewers completed their evaluations, the teams met for a detailed review and evaluation and agreed upon consensus ratings for the three components in each application. This completed the first round of the final application phase. The

teams then exchanged applications and repeated the evaluation process.

Prior to the last review round with the secretary and two assistant secretaries, the team leaders individually ranked the applications, according to their team consensus, from 1 to 44. Then the team leaders met to come up with a composite list of 28 cities and towns for recommended funding. After detailed discussions on both the recommended and not recommended cities and towns, the secretary and two assistant secretaries dropped three of the recommended applicants and cut some activities from other applications. These two actions freed funds and resulted in grant awards to 31 applicants, 6 of which were not on the original list of recommended applicants.

As a last step, the team leaders replaced the highly competitive, competitive, and not competitive ratings with numeric scores as follows:

<u>Category</u>	<u>Need</u>	<u>Impact</u>	<u>Commitments</u>	<u>Total</u>
Highly competitive	111-150	226-300	35-50	372-500
Competitive	36-110	76-225	11-35	121-371
Not competitive	0-35	0-75	0-10	0-120

As discussed below, after the team leaders had team consensus ratings on all the applications, they were to individually rank the applications by assigning numeric scores to the three components.

Results of our review of the
Massachusetts selection process

We reviewed the preliminary and final grant applications and related application summaries and ratings for all grantees and a sample of the unsuccessful applications, including several that reached the final application phase, to determine if the State

- followed its own criteria for rating applications and
- selected grantees in accordance with the methodology outlined in the program statement provided to HUD.

Our review showed that the State followed its selection criteria and its methodology for distributing funds with one minor exception.

Massachusetts' adherence to
selection criteria

Our review of EOCD documents shows that ratings of highly competitive, competitive, and noncompetitive were assigned for the preliminary and final applications. However, because the criteria included subjective considerations, individual raters and teams often disagreed in the ratings assigned the same applications. For example, during the review of preapplications, one team rated four communities as being highly competitive whereas the other team rated the same communities as being noncompetitive. During review of final applications, the teams ratings--highly competitive, competitive, and noncompetitive for need, impact, and commitments--only agreed on 6 of the 31 communities which eventually received grants. In addition, to facilitate the funding decisions, each team ranked the final applications 1 through 44 on the basis of their competitiveness. Our analysis of these rankings showed that the teams--for the most part--disagreed as highlighted by the following examples:

<u>Community</u>	<u>Team A ranking</u>	<u>Team B ranking</u>
A	21	6
B	20	8
C	37	10
D	40	17
E	38	19

Although following the State's criteria, EOCD staff often disagreed on the ratings and/or rankings assigned individual community's applications. Because EOCD staff rated these applications on the basis of personal knowledge and experience, in addition to the information provided in the grant application, we were unable to determine with complete certainty the appropriateness of EOCD's grant decisions. Nonetheless, after review of all available information, we did not identify any instances where the State's grant decisions appeared inappropriate.

In a March 14, 1983, letter commenting on our draft report, the Secretary of EOCD agreed that Massachusetts' evaluation criteria were subjective. She pointed out, however, that the reviewers judged each proposal on individual merit, relative merit within the application category and finally, relative merit to all other proposals. Also, she said the quality of the total group of applications defined the reviewer's parameters for "highly competitive" through "not competitive."

Massachusetts' compliance with
distribution methodology
reported to HUD

During our review, we identified only one instance in which Massachusetts did not adhere to its distribution methodology as reported in its final program statement to HUD. According to the final program statement, final proposals were to receive numerical scores to be used in determining eventual grant recipients. A proposal could receive a maximum score of 500 points divided into three areas: need--150 points; impact--300 points; and local commitment--50 points. However, instead of using numerical scores, the State used scores of "highly competitive, competitive, or noncompetitive" when rating applications. After the grant award decisions were made, the State assigned numerical scores. According to the Small Cities Program Director and Assistant Director, numerical scores were added later to comply with the State's program statement provided to HUD. A December 1982 HUD monitoring report also found that EOCD did not utilize a numerical scoring system in selecting applicants for grants.

In a March 14, 1983, letter to us, the Secretary of EOCD said it was the State's view that the rating criteria set forth in the final statement to HUD was followed without any exceptions. The secretary made two points. First, the details of when numbers would be formally assigned to proposals was never set forth in the final statement. Second, as set forth in the statement, final proposals did receive a numerical score that was used in determining eventual grant recipients. Before receiving any final applications, reviewers were given documents entitled, Final Application Process and Final Application Review Guide. Both of these papers explicitly described how points translated into words such as "not competitive, competitive," and so forth.

We do not agree with the secretary's position as the language in Massachusetts final statement to HUD clearly indicates that numerical scores will be assigned before grant recipients are selected. The language reads as follows:

"As in the preapplication phase, applicants will be competing against others within their program category. However, unlike the preapplication, final proposals will receive a numerical score that will be used to determine eventual grant recipients. Proposals will be able to receive a maximum score of 500 points, divided into the following three areas: Need--150 points; Impact--300 points; and Local commitments--50 points."

While not agreeing with the secretary's position, our review showed that the exception noted did not affect the way grants

were awarded; therefore, we are characterizing it as being minor.

Anticipated changes in the 1983 program

The Small Cities Program Director and Assistant Director stated that because of the January 1983 change in the State administration, it was too early to tell if significant changes would occur in the State's fiscal year 1983 Small Cities Program. The director, however, is considering the following changes:

- Allocating about 20 percent of the funds for economic development and commercial revitalization projects. The State did not allocate its funds to specific program areas in 1982.
- Requiring applicants to submit more detailed financial information for project feasibility determinations.
- Requiring applicants to submit detailed information on how projects will benefit low- and moderate-income people.
- Emphasizing statistical indicators in both the preapplication and final application in terms of unemployment rates, percentage of low- and moderate-income beneficiaries, and so forth.
- Maintaining formal notes on discussions held with the secretary and two assistant secretaries during the final grant application review process.

CONCLUSIONS

Massachusetts used a variety of methods such as newsletters, newspaper advertisements, a public hearing, and workshops to inform and obtain input on the design of the Small Cities Program. State and public interest group officials and local communities were generally satisfied with Massachusetts' public participation efforts.

Our questionnaire results showed that local governments also emphasized public participation in determining their community development needs. Ninety-seven percent of the grantees said persons outside their government provided input to help identify community development projects and activities. Eighty-four percent of the grantees also said formal needs assessments was part of community development planning.

Massachusetts used a two-stage competitive selection process, rating applications as "not competitive, competitive, and highly competitive." In doing so, except for not assigning

numerical scores to applications prior to making grant decisions, the State followed its selection process and distribution methodology as outlined in the program statement it gave to HUD.

COMPARISON OF HUD- AND STATE-FUNDEDACTIVITIES AND POPULATION TARGETED

The 1981 HUD- and 1982 State-administered Small Cities Programs are basically alike. Both programs funded primarily housing rehabilitation projects, public facility projects, and economic development activities.

Both HUD's and Massachusetts' programs are reported to benefit primarily low- and moderate-income persons, on the basis of information obtained from communities' applications. In 1981, the HUD program reported that 90 percent of its benefits would be targeted to low- and moderate-income persons, while in 1982, the State program reported that 84 percent of the benefits would be targeted to this group. Massachusetts plans to gather actual benefit data, although it is uncertain how it will report this information to HUD.

MAJOR ACTIVITIES FUNDED UNDER HUD'S 1981
PROGRAM AND THE STATE'S 1982 PROGRAM

The 1981 HUD and 1982 State grants do not significantly differ in terms of the types of activities funded. Some differences exist in areas such as average grant award, funded community size, and funding support from other sources. Also, as a percent of total funds awarded, Massachusetts' spending on public facility activities decreased 16 percentage points compared with the previous HUD program, while spending on economic development activities increased 16 percentage points. However, the primary emphasis of both programs was housing rehabilitation, with HUD spending 47 percent and Massachusetts spending 49 percent of their funds on this activity. Table 1 compares the two programs:

Table 1

Comparison of 1981 HUD and 1982 State Grants

	<u>HUD 1981</u>	<u>State 1982^a</u>
Number of grants	42 ^c	31 ^d
Average size of award	\$540,095	\$440,706
Number of joint community applications	1	3
Average community size	18,746	14,069
Grants supported by other funds:		
Number	10	30
Source and amounts:		
Local	\$ 42,549	\$ 1,979,032
State	6,803,150	5,721,000
Private		16,712,763
Federal	29,120	713,500
Other	<u>1,470,250</u>	<u>0</u>
Total	<u>\$8,345,069</u>	<u>\$25,126,295</u>

Percentages and dollar awards by activity: ^b	<u>HUD 1981</u>		<u>State 1982</u>	
Housing rehabilitation	46%	\$10,317,751	49%	\$ 6,678,965
Public rehabilitation	1	120,000	0.1	20,000
Public facilities	33	7,484,936	17	2,320,930
Economic development	6	1,370,500	22	3,052,300
Property acquisition	0.1	22,000	1	90,000
Construction	1	250,000	0	0
Contingency	1	299,500	0	0
Clearance	0.4	75,000	0	0
Planning	1	189,500	0	0
Other	<u>11</u>	<u>2,554,813</u>	<u>11</u>	<u>1,499,691</u>
Total funds awarded	<u>100.5%</u>	<u>\$22,684,000</u>	<u>100.1%</u>	<u>\$13,661,886</u>

^aFor the purposes of our comparisons, we did not include \$12.4 million that was part of the State's allocation but was committed to past HUD-approved multiyear grants because the State did not have control over the money. States had to agree to fund the multiyear grants as a condition to taking over the Small Cities Program.

^bPercentages may not total 100 because of rounding.

^cIncludes 20 multiyear grants, of which 12 were in the first year of funding, 3 were in the second year of funding, and 5 were in the third year of funding.

^dIncludes seven multiyear grants which will also be funded in fiscal year 1983.

Number of grants

Massachusetts awarded funds for 11 fewer grants than HUD did. However, the State also awarded an additional 15 multiyear grants that were continuations of projects that HUD funded the previous year.

Award size

The average Massachusetts award for fiscal year 1982 was about 20 percent smaller than the average HUD award. The maximum State grant was limited to \$700,000, while 1981 HUD grants were limited to \$800,000. Furthermore, some multiyear HUD grants approved before 1981 had maximum dollar ceilings as high as \$1 million. The dollar ranges for the State and HUD grants follow:

Dollar Ranges of 1982 State
and 1981 HUD Small Cities Grants

<u>Dollar range</u>	<u>Number of State grants</u>	<u>Number of HUD grants</u>
\$100,000-\$200,000	1	-
\$200,001-\$300,000	6	10
\$300,001-\$400,000	8	12
\$400,001-\$500,000	5	2
\$500,001-\$600,000	6	-
\$600,001-\$700,000	5	5
\$700,001-\$800,000	-	10
\$800,001-\$900,000	-	2
\$900,001-\$1,000,000	-	-
\$1,000,001-\$1,100,000	-	1
Total	<u>31</u>	<u>42</u>

Number of joint community applications

About 10 percent of Massachusetts' grants were awarded on the basis of joint applications submitted by two or more communities, while about 2 percent of HUD's grants were similarly awarded. The State encouraged communities to submit joint applications as part of its application process.

Community size

Communities funded under the State program were about 25 percent smaller in population than those funded by HUD. The Small Cities Program Director stated that Massachusetts made it easier for smaller communities to obtain grants by shortening the preliminary application and by encouraging the submission of joint applications.

Grants supplemented with other funds

Nearly all of the communities obtaining State grants received other sources of funding for their projects. Under the HUD program, only about a quarter of the grants involved other funding. This difference may be partially attributable to Massachusetts' award process, which favored communities that committed other Federal, State, local, or private funds to their projects.

Activities funded

In both the Massachusetts and HUD programs, nearly all grant funds were sought for housing rehabilitation projects, public facilities projects, and economic development activities. Both programs placed equal emphasis on housing rehabilitation projects; however, the State program placed greater emphasis on economic development activities while HUD favored public facilities projects. This difference may not be significant because overlap exists in these two categories.

Multiyear grants

The HUD program placed far greater emphasis on multiyear grants than the State program did. About half of the HUD grants were multiyear grants, compared with about one-fourth of the State grants.

Eligible communities and applications received

Under both programs, communities eligible to participate totalled 325. Massachusetts received a total of 122 applications for funding, while HUD received 73. Massachusetts shortened the preliminary application process considerably with the intent of encouraging greater participation.

BENEFITS TARGETED TO LOW- AND MODERATE-INCOME PERSONS UNDER THE 1982 STATE PROGRAM VERSUS THE 1981 HUD PROGRAM

Both the Massachusetts and HUD programs targeted benefits primarily to low- and moderate-income persons. However, the percentage of low- and moderate-income persons reported as being targeted for benefits decreased from 90 percent under the 1981 HUD program to 84 percent under the 1982 Massachusetts program.

Information on the percentage of low- and moderate-income persons targeted under both programs was reported in grant applications. The data in some applications were not complete, particularly when projects focused on public facility or economic development activities. Therefore, we were unable to determine low- and moderate-income benefits on some of the

activities on some projects. Projects of these types tend to benefit a particular geographic area as opposed to specific groups or individuals.

Massachusetts will require grantees to report actual data on benefits to low- and moderate-income persons. The State will verify this information during site visits and compare planned versus actual data. The data on actual benefits will be included in the report to HUD.

The State Small Cities Program Director stated the State's responsibility for reporting to HUD is vague. States are asking HUD for additional guidance on this subject because Federal reporting requirements are unclear.

CONCLUSIONS

The 1981 HUD- and 1982 State-administered Small Cities Programs funded the same types of activities--housing rehabilitation, public facilities, and economic development. However, some differences between the programs did exist. While both programs spent more on housing rehabilitation activities than any other activity, Massachusetts shifted its secondary emphasis from public facilities to economic development.

Both programs planned to benefit primarily low- and moderate-income persons, with HUD reporting in 1981 that 90 percent of its program beneficiaries would be low- and moderate-income persons, and Massachusetts reporting in 1982 that 84 percent would be persons of low and moderate incomes. Although Massachusetts plans to gather actual benefit data, it was uncertain as to how it will report this information to HUD.

PERCEPTIONS: COMPARISON OF STATE
AND HUD-ADMINISTERED PROGRAMS

State, HUD, and public interest group officials generally believed the Massachusetts program is equivalent to or better than the former HUD program in satisfying local needs and seeking public input. Grantees' and unsuccessful applicants' overall view of the State program generally was favorable. Also, in comparing it to HUD's program, most felt the State program was at least comparable or better.

STATE, HUD, AND OTHER VIEWS
ON STATE AND FORMER HUD PROGRAMS

Massachusetts State officials believe their Small Cities Program meets local community needs better than the former HUD-administered program. HUD regional and area office officials concurred with this assessment. Public interest group officials generally view the State program as being better than the former HUD program in soliciting and responding to public comment, providing technical assistance, and meeting local needs.

State officials' views

The Small Cities Program Assistant Director stated that Massachusetts' program is better able to meet local needs than the former HUD program because the State is more aware of community development concerns. The assistant director considers EOCB's process for soliciting and responding to public comment to be better than HUD's process. He stated that EOCB formulated an advisory task force, comprised of local community officials and development and planning interests, to provide input to the State plan and obtain comments on the plan from interested persons and groups. In addition, Massachusetts held six public training sessions and one public meeting, where comment was obtained. Public comments were reviewed with task force members, and changes were made to the State plan as appropriate. In addition, the director and assistant director believed that EOCB's awareness of local needs was increased through EOCB staff input.

HUD officials' views

HUD regional and area office officials believe the transfer of the Small Cities Program from HUD to the State will better address local needs and increase public participation.

HUD's Boston regional office Director of the Community Planning and Development Division and area office Director and Deputy Director of the Community Planning and Development Division maintain that the shift of the HUD Small Cities Program to the State increases the State's flexibility. This shift enables

States to "fine tune" grants to situations or needs peculiar to their economies. It also enables the State to coordinate program design priorities with related State programs. These officials further believed a State-administered program provides a greater likelihood for interest groups' participation than the HUD-administered program.

The area office Director and Deputy Director also stated that although local communities identify their priorities, these needs will not be funded if they do not mesh with the State's priorities (or HUD's under the former program). Accordingly, communities tailor their grant applications to reflect "fundable" needs, even if these needs are not their top priority.

Public interest groups' views

EOCD's Small Cities Program Assistant Director identified the Citizens Housing and Planning Association and the Massachusetts Municipal Association (Massachusetts Chapter of the National League of Cities) as instrumental in developing State Small Cities Program priorities and activities. The executive directors of both associations had been members of the State's Small Cities Advisory Task Force. Both directors generally viewed Massachusetts' program as being equivalent to or better than HUD's program, particularly with respect to its public participation efforts. Some examples of their individual comments on the State's Small Cities Program follow:

- Massachusetts' program was 100 percent better than HUD's in soliciting and responding to public input.
- Massachusetts provided much better technical assistance than HUD did. The State provided local communities with considerable correspondence explaining the program and conducted six training sessions.
- Massachusetts' Small Cities Program provided a greater opportunity for public comment than any other State community or economic program with which they were familiar.
- Massachusetts' program is flexible enough to respond to communities' needs.

VIEWS OF GRANTEES AND UNSUCCESSFUL APPLICANTS

Grantees and unsuccessful applicants' views on the Massachusetts program generally were favorable. Unlike grantees, however, unsuccessful applicants were dissatisfied with the State's grant award process and technical assistance.

In comparing the State and HUD programs, the majority of the grantees and unsuccessful applicants considered most State program aspects as being equivalent to or better than the HUD program. However, the former HUD program's reporting requirements and reimbursement/drawdown procedures were viewed more favorably.

Views on State program's strengths and weaknesses

Although grantees and unsuccessful applicants had mixed views on the State program's strengths and weaknesses, they generally agreed it is equivalent to or better than other State or federally administered programs concerning shortcomings and State's ability to meet local needs. Some unsuccessful applicants viewed Massachusetts' grant award process as being unfair, whereas the majority of the grantees believed this process was fair. In addition, although a larger percentage of unsuccessful applicants requested State assistance in preparing grant applications, the majority viewed the State's help as "moderate," whereas most grantees viewed State assistance as a "great help." Finally, more unsuccessful applicants than grantees believed that applications that included certain types of activities such as housing stood a greater chance of being funded.

Strong aspects

Fifty-two percent of the grantees and 23 percent of the unsuccessful applicants said that Massachusetts' program had particularly strong aspects regarding its design, award process, and regulations. Furthermore, some of these respondents provided comments on specific strengths of the State program. Some of these comments follow:

1. State program design

- Is less burdensome than HUD's program and encourages smaller and inexperienced communities to participate in the program.
- Emphasizes both housing and economic activities and addresses the needs of the rural communities.
- Allows the use of "for profit" organizations.
- Is considerably less complex than HUD's and has fewer requirements.

2. State award process

- Tries to be conscientious and shares the limited funds fairly.
- Assesses need fairly.

- Attempts to utilize an objective and quantitative scoring system.
- Has a preapplication process that is simple and concise, and screens out less competitive applicants.

3. State program regulations

- Are not too difficult.
- Are streamlined.
- Keep redtape and paperwork to a minimum.

Shortcomings

Approximately 45 percent of the grantees and 52 percent of the unsuccessful applicants believed there are significant shortcomings in the Massachusetts program regarding its design, award process, and regulations. Some of these respondents provided particular comments regarding shortcomings of the State program. Some of these comments follow:

1. State program design

- Included new procedures altering previous understandings and causing delays in local project starts.
- Included a seven-page preapplication form that is inadequate in discussing needs and solutions.
- Does not encourage joint applications from rural communities unless the same project activities are contemplated.

2. State award process

- Gives greater priority to housing projects than other activities. (The Small Cities Program Director stated that although the State did not give greater priority to housing projects, more of these projects were funded.)
- Leads applicants to believe they can tailor programs to meet local needs, but the State places an emphasis on housing activities.
- Discourages the use of regional planning agencies for technical assistance and administration. (The Small Cities Program Director stated that a legal technicality, not the State, discouraged the use of regional planning agencies.)
- Provides ambiguous reasons for not selecting the final application.

--Appears to be politically motivated.

3. State program regulations

--Added regulations after projects started.

--Were increased by the State and are unclear. (The Small Cities Program Director stated while it may have seemed that the State imposed more regulations, it, in fact, enforced regulations previously unenforced by HUD. Under its program, HUD selectively enforced regulations. Massachusetts, however, enforces all regulations because it does not know what HUD will verify.)

State shortcomings compared with shortcomings in other State or Federal programs

As illustrated below, the majority of the grantee and unsuccessful applicant respondents--about 68 and 63 percent respectively--viewed the Massachusetts program as having about as many or fewer shortcomings than other State or Federal programs.¹

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
More	16	12
About as many	32	33
Fewer	29	27
Many fewer	7	3
No basis by which to judge	16	24

How adequately does State program meet local community development needs?

As the following table shows, about 81 percent of the grantees and 67 percent of the unsuccessful applicants believed the State program adequately addresses the development needs of their communities.

¹Percentages of respondents may not total 100 percent because of rounding.

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Much more than adequate	7	3
More than adequate	13	12
Adequate	61	52
Less than adequate	13	18
Much less than adequate	3	-
No basis to judge	3	15

Did the community receive State assistance in preparing grant applications?

About 68 percent of the grantees and 64 percent of the unsuccessful applicants received State assistance when preparing their grant applications. One-third of the grantees and about three-fourths of the unsuccessful applicants receiving assistance had requested the State's help. Those receiving assistance rated the State's efforts as follows:

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Very great help	14	5
Great help	48	29
Moderate help	19	38
Some help	14	24
Little/no help	5	5

Very few grantees or unsuccessful applicants labeled the State assistance as little/no help in preparing their grant applications. The majority of the grantees considered State assistance was of "great help," whereas the majority of the unsuccessful applicant viewed State assistance as being "moderately helpful."

Familiarity with State's award process

The following table shows that more grantees than unsuccessful applicants were familiar or very familiar with the Massachusetts' grant award process.

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Very familiar	26	2
Familiar	55	52
Unfamiliar	19	44

Fairness of State's grant award process

As illustrated below, the majority of the grantees believed the State's grant award process was fair or very fair. Unsuccessful applicants, however, most often viewed this State process as being unfair.

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Very fair	21	-
Fair	50	34
Neither fair/unfair	17	29
Unfair	8	37
Very unfair	4	-

State consideration of various activities

Unsuccessful applicants were more opinionated than grantees in citing activities or applications which they believed were given more or less attention by the State during the grant award process. Some unsuccessful applicants believed the following have a greater or lesser chance of receiving Small Cities Program funding.

<u>Greater chance</u>	<u>Lesser chance</u>
--Large, urban communities.	--Smaller, rural communities.
--Housing activities.	--Counties.
--Continuations of earlier projects or activities.	--New projects and activities.

Applicants' comparison of
Massachusetts program with
former HUD program

Eighty-four percent of the grantees and 62 percent of the unsuccessful applicants said they previously participated in HUD's Small Cities Program. Of those that had participated in the HUD-administered program, grantees and unsuccessful applicants generally agreed that the Massachusetts program is equivalent to or better than the HUD program in the following areas:

- Application procedures.
- Eligibility requirements.
- Variety of activities.
- Flexibility in determining which population groups to serve.
- Technical assistance.
- State priorities.
- Award process.

Respondents were more likely to say the current State program is less prompt than the former HUD program for reimbursements or drawdown procedures, although most respondents said they had no basis by which to make this comparison. Furthermore, most respondents said the State's reporting requirements are more burdensome than HUD's.

Data on the comparison issues that follow were obtained only from those respondents who said they had previously participated in HUD's Small Cities Program.

Application procedures

As illustrated below, most grantees and unsuccessful applicants believe State application procedures for the Small Cities Program are about equally or less burdensome as those for the HUD-administered program. Overall, unsuccessful applicants viewed the State's application procedures more favorably than the grantees did. None of the unsuccessful applicants believed the State's procedures are more burdensome, whereas some grantees stated they were.

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Much more burdensome	8	-
More burdensome	8	-
Equally burdensome	50	41
Less burdensome	31	43
Much less burdensome	4	16

Eligibility requirements

About 77 percent of the grantees and 84 percent of the unsuccessful applicants who commented on eligibility requirements said State requirements are as difficult as those for the HUD-administered program. Only a small percentage of both groups believe State eligibility requirements are more or less difficult than HUD's.

Variety of activities

About 73 percent of the grantees and 71 percent of the unsuccessful applicants commenting on the activities allowed under the State program believed that Massachusetts allows about the same or a wider variety of activities compared with HUD's program. In contrast, about 19 percent of the grantees and 10 percent of the unsuccessful applicants believed the State program offered a narrower variety of activities. Furthermore, 8 percent of grantees and 20 percent of the unsuccessful applicants said they had no basis by which to judge this.

Flexibility in determining population groups

Almost 85 percent of the grantees and 71 percent of the unsuccessful applicants commenting on targeted population groups believed Massachusetts' program is about as flexible or more flexible in determining population groups to be served by the Small Cities Program activities and/or funding as compared with HUD's program. Only 8 percent of grantees and 5 percent of the unsuccessful applicants believed the State program allows less flexibility than the HUD program. However, 8 percent of the grantees and 24 percent of the unsuccessful applicants said they had no basis on which to make this comparison.

Technical assistance

Eighty-one percent of the grantees stated the State's technical assistance was equal to or more helpful than the technical assistance provided by HUD under the former program. Fifteen percent found it was less helpful, and 4 percent said they had no basis on which to judge the assistance.

State priorities

About 73 percent of the grantees and 71 percent of the unsuccessful applicants providing responses said the emphasis or order of the State's priorities is equal to and/or more consistent with the community's priority of needs than under the HUD-administered program. Nineteen percent of the grantees and 20 percent of the unsuccessful applicants believed the State's priorities are less consistent with local priorities than the HUD program. The remaining respondents had no basis by which to judge.

Grant award method

About 58 percent of the grantees and 44 percent of the unsuccessful applicants commenting on the award process responded that Massachusetts' method for granting awards is equal to or fairer than the method used by HUD. Twenty-three percent of the grantees and 29 percent of the unsuccessful applicants said the State's grant award method was not as fair as HUD's grant award process. The remaining 19 percent of the grantees and 27 percent of the unsuccessful applicants said they had no basis on which to make this comparison.

State reimbursements or drawdowns

The majority of the grantees (62 percent) said they had no basis for comparing the promptness of the State's reimbursements, payments, or drawdowns with similar activities under the HUD program. However, 23 percent did say that the State is less prompt than HUD in making these payments, while 15 percent believed the State and HUD were equally prompt. The Small Cities Program Director said the State is less prompt because an additional step has been added; the State must sign all fund requests before submitting them to HUD for approval.

Reporting requirements

Approximately 65 percent of the grantees believed that the State's reporting requirements for utilizing Small Cities Program funds are more burdensome than those required by the former HUD-administered program. Thirty-one percent believed they were equally burdensome, and only 4 percent found the State's requirements were less burdensome.

CONCLUSIONS

State, HUD, and public interest group officials generally agreed that Massachusetts' program is better able to meet local needs and solicit public input than the former HUD-administered program. In addition, although some unsuccessful applicants viewed the State's grant award process as "unfair," grantees and

unsuccessful applicants generally rated the Massachusetts program as being equivalent to or better than the former HUD Small Cities Program in almost all aspects.

OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objectives of this work were to provide the Congress with a report on State implementation of the Small Cities Community Development Block Grant Program, as authorized by the Omnibus Budget Reconciliation Act of 1981, and to provide input to the 1983 reauthorization process on the block grant legislation. This work is part of our ongoing effort to keep the Congress informed of the progress being made in implementing the block grant aspects of the Omnibus Budget Reconciliation Act of 1981.¹

When we conducted our field work--December 1, 1982, through January 15, 1983--most States were in the early stages of implementing the Small Cities Program. While essentially all States had selected their 1982 recipients, some States were just completing grant agreements with local communities and only one had started its monitoring work. Accordingly, our work was directed towards reviewing the State decisionmaking process through the selection of grantees, concentrating on the following issues:

- How did States meet their public participation requirements?
- How did States decide to use and distribute Small Cities Program funds and how did that method compare with what they told HUD in their statement of objectives and projected use of funds?
- What projects and activities did the State fund in 1982, and how did they compare with the 1981 HUD-administered Small Cities Program?
- What were the successful and unsuccessful applicants' perceptions on how well a State-administered program meets local needs compared with a federally administered program?

We reviewed the programs of seven States--Alabama, Delaware, Iowa, Kentucky, Massachusetts, Michigan, and Utah. These seven States were allocated \$150.1 million of fiscal year

¹In August 1982, we provided the Congress an initial look at States' implementation of the 1981 legislation in our report entitled "Early Observations on Block Grant Implementation" (GAO/GGD-82-79). Also, on the basis of the preliminary results of this review on March 9, 1983, we provided a statement for the record before the Subcommittee on Housing Urban Affairs, Senate Committee on Banking, Housing and Urban Affairs on our views of States' early implementation of the Small Cities Program.

1982 Small Cities Program funding. This represents approximately 15 percent of the fiscal year 1982 funds available for small cities and 20 percent of the total funds allocated to those States that elected to administer the program in 1982.

We selected these States on the basis of the progress they had made in implementing the Small Cities Program--we excluded those States that had not essentially completed their selection of recipients by December 1, 1982. We initially based our selection on the 13 States included in our prior review. (See footnote 1 on p. 35.) However, six of those 13 States--California, Colorado, Florida, New York, Vermont, and Texas--chose not to administer the program in fiscal year 1982. Three others--Mississippi, Pennsylvania, and Washington--although electing to administer the program, had not completed their selection process by December 1. Therefore, to obtain additional audit coverage and geographic balance three States were added--Alabama, Delaware, and Utah.

In Massachusetts we met with officials responsible for developing, designing, and implementing the Small Cities Program to obtain information and their views on the State's decision-making process and on the administration of the program compared with the past HUD-administered program. We reviewed documents concerning the State's design of the program, public participation efforts, and all grantee applications to obtain detailed data on how local communities were planning to use the block grant funds. We also met with selected public interest groups to determine their role in designing the State program and obtain their views on the program and its administration.

We reviewed the grant applications and related EOCD application summaries and ratings for the entire universe of successful applicants and for a statistical sample of the unsuccessful applicant universe in Massachusetts to determine if the State distributed funds and selected grantees in accordance with the procedures outlined in its statement of objectives and in accordance with the criteria it established for that purpose.

In addition, we sent a questionnaire to the sample (35 of 91) of unsuccessful applicants and another questionnaire to all 30 grantees to obtain local community perceptions on the State-administered program. In order to provide input in the reauthorization hearings on the Community Development Block Grant Program, we conducted our audit work over a short time-frame. Consequently, we decided to structure our samples to yield the most precise estimates for the total grantees and unsuccessful applicants in the seven States included in our review, thus accepting less precise estimates for grantees and unsuccessful applicants in each individual State. The sampling errors for the total grantee sample and total unsuccessful applicant sample in the seven States are no greater than plus or minus 6 percent and 7 percent, respectively, at the 95-percent

confidence level. There is no sampling error for the grantee questionnaire data in this report because we sampled the entire grantee universe in Massachusetts. The sampling error for the majority of questionnaire data for the unsuccessful applicant sample is no greater than plus or minus 11 percent, and the largest sampling error is 13.6 percent, all at the 95-percent confidence level. This means the chances are 19 out of 20 that if we had reviewed all of the unsuccessful applicants in Massachusetts, the results of the review would not have differed from the estimates obtained from our sample by more than the sampling error reported. The results presented in this report represent responses weighted to reflect the responses of population sampled. The response rates for the grantees and unsuccessful applicants were 100 percent and 97 percent, respectively.

The successful applicant questionnaire was designed to obtain information on the local community's input into the State decisionmaking process in designing its program, the way in which the community planned for, applied for, and is using the funding it received, and the community government's views on the way in which the State conducted the program compared with the past HUD-administered program. We asked that the views expressed be those of the highest level government official familiar with the community's experience under the program.

The unsuccessful applicant questionnaire was also designed to obtain information on the local community's input into the State's decisionmaking process in designing its program, the way in which the community applied for funds, and the community government's views on the way the State conducted the program compared to the past HUD-administered program. We also asked unsuccessful applicants questions concerning the State's decision not to fund their projects. As in the successful applicant questionnaire, we asked the views expressed be those of the highest level of government official familiar with the community's experience under the program.

In addition to visiting the seven States, we conducted our review at HUD headquarters and the HUD regional and area offices that were responsible for administering the 1981 Small Cities Program in the seven States. At HUD regional and area offices in Massachusetts, we interviewed community planning and development officials and reviewed appropriate documents to gather information on HUD's role in assisting States in designing their Small Cities Program and to obtain views on the advantages and disadvantages of States administering the Small Cities Program versus HUD. We also gathered detailed information from all of the grantee applications HUD funded in 1981 in Massachusetts. These data were summarized along with the 1982 grantee application data and used to show how the funds were used under the State's decisionmaking process versus HUD's decisionmaking process.

Our review was made in accordance with generally accepted government auditing standards.



Commonwealth of Massachusetts
**Executive Office of
 Communities and Development**



100 Cambridge Street Room 1404 Boston, Massachusetts 02202 (617) 727-7765

MICHAEL S. DUKAKIS, GOVERNOR
 AMY S. ANTHONY, SECRETARY

March 14, 1983

Louis Lucas
 Regional Manager
 U. S. General Accounting Office
 100 Summer Street, Suite 1907
 Boston, MA 02110

Dear Mr. Lucas:

Governor Dukakis has referred your review of the Massachusetts Small Cities Program (MSCP) to me. This Program is administered out of my Secretariat, the Executive Office of Communities and Development (EOCD).

I encourage you to report the successes of the state-administered Small Cities Program to the Congress. We have assumed a demanding responsibility and accomplished a great deal in this transitional first year. Massachusetts has maintained the integrity of the Program through designing the MSCP to implement the goals and objectives of the Congress as stated in the amended Act of 1981. The transfer of the Small Cities Program has provided the opportunity for new and more effective program design and implementation. It is clear from your draft report that this conclusion is widespread. On page 33, the GAO team concluded that, "Public interest group officials, grantees, and the unsuccessful applicants generally rate the State program as equivalent to or better than the former HUD Small Cities Program in almost all aspects".

As was noted in the Report, the '81 HUD Small Cities Program and the MSCP are similar, however, many positive differences do exist. These are important points that I hope are emphasized in the final GAO report to Congress.

- The size of the average grant award was smaller however, the size of the average grant recipient was also smaller. New, smaller communities which had never accessed CDBG funds before were successful under the State Program. 35% of the MSCP '82 grantees are new to the CDBG Program.

- The MSCP leveraged more other public and private investment. Approximately \$2 in other monies was leveraged for each MSCP dollar expended.
- Economic development was considered a priority activity within the MSCP (22% obligated as opposed to HUD's 6%), while maintaining housing expenditures at a higher rate than the previous HUD administered program.
- The opinions of HUD officials, public interest groups, grantees and unsuccessful applicants that the MSCP better meets local needs is due to our emphasis on public participation. The State Program has provided for the type of local input that had been required in the past only in communities. We are committed to this process and consequently, our program design reflects the needs and concerns of Massachusetts cities and towns.

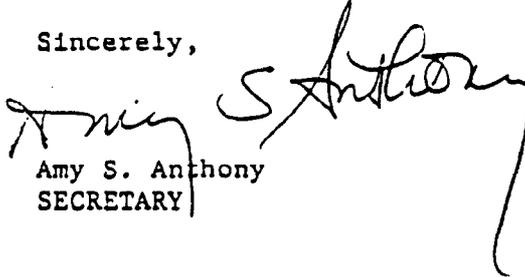
Throughout the draft Report, GAO reviewers stated that Massachusetts had followed its ratings criteria as set forth in its Final Statement to HUD, "with one exception, its methodology for selecting grantees." Specifically, reviewers determined that numerical rankings were assigned to applications too late in the evaluation process. The details of when numbers would be formally assigned to proposals was never set forth in the Statement. It is the State's view that we have followed the rating criteria as set forth in the Final Program Statement to HUD, without any exceptions. As was set forth in the statement, final proposals did receive a numerical score that was used in determining eventual grant recipients. The English language was used as a preliminary tool instead of numbers to facilitate discussion among reviewers. Prior to the receipt of any final application, reviewers were given documents entitled; Final Application Review Process and Final Application Review Guide. Both of these papers explicitly described how points translated into words such as not competitive, competitive, etc. As mentioned, we found this method of using words and numbers less cumbersome in discussion. However, all verbal ratings related to numerical scores from the onset of application review. At the close of discussion, these verbal ratings were assigned numerical rankings according to MSCP pre-set guidelines.

GAO reviewers have referred to MSCP evaluation criteria as "subjective". We certainly agree, in that all evaluations are subjective. However, the MSCP reviewers judged each proposal on individual merit, relative merit within the application category and finally, relative merit to all other proposals. The quality of the total group defined the reviewer's parameters for highly competitive through not competitive. These categories were not delineated in concrete form before the process began to allow the competition itself to define winners and losers.

One technical note, on page 11, under the Process for Selecting Small Cities Grantees, the final step in the application evaluation process was left out, the Governor's review.

We appreciate this opportunity to comment on GAO's review of the Massachusetts Small Cities Program. I would also like to compliment the GAO review staff on their professional conduct and an immense job well done. Enclosed you will find the copy of the report as you requested.

Sincerely,

A handwritten signature in cursive script, appearing to read "Amy S. Anthony". The signature is written in dark ink and is positioned to the right of the typed name.

Amy S. Anthony
SECRETARY

GAO note: Page references have been changed to correspond with page numbers on the final report.

ASA/bjm