

12200
~~2682~~



UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE

ROOM 865
PATRICK V. McNAMARA FEDERAL BUILDING
477 MICHIGAN AVENUE
DETROIT, MICHIGAN 48226

NOVEMBER 4, 1983

The Honorable James J. Blanchard
Governor of Michigan
State Capitol
Lansing, Michigan 48909



Dear Governor Blanchard:

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

Enclosed is our final report which describes Michigan's 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 Michigan's program. Michigan 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 the results of our review in Michigan.

Essentially, we found that HUD, in fiscal year 1981, and Michigan, in fiscal year 1982 (excluding HUD multiyear commitments), each spent about \$21 million to fund Small Cities Program projects. However, Michigan's program reflected priorities that were different from HUD's. Although they both funded the same types of projects, HUD's program emphasized housing and public works projects. Michigan's program emphasized economic development. As a result, housing and public works projects under Michigan's program decreased, and economic development projects increased. Michigan spent about 65 percent (\$13.4 million) of its funds on economic development projects or public works projects that had economic development as a goal, and about 31 percent (about \$6.4 million) on housing rehabilitation. In 1981, HUD spent about 38 percent (\$8.2 million) of its Michigan

(384807)

027218
122868

Small Cities Program funds on economic development and public works projects, and about 47 percent (\$10.2 million) on housing rehabilitation. (See enc. III.)

Michigan's Small Cities Program grants were supplemented with substantially more funds than HUD's Small Cities Program grants. In 1982, the State's grants were supplemented with \$119.5 million of local, State, private, and Federal funds, compared with \$600,000 under the 1981 HUD program. Michigan awarded funds to nearly twice as many grantees as HUD did. HUD, in fiscal year 1981, awarded 47 grants, 12 of which were multiyear grants. The average award was for about \$460,000. Michigan awarded 88 grants, excluding the 12 HUD multiyear grants, which averaged about \$235,000. The smaller average grant award is due, in part, to the many small economic development planning grants awarded, which were limited to \$25,000 each. (See enc. III.)

HUD and Michigan each funded projects that were to primarily benefit low- and moderate-income persons. On the basis of application data, however, the percentage of expected beneficiaries who were low- and moderate-income persons declined 19 percentage points (from 91 to 72) under Michigan's program when compared with the previous HUD program. This decrease may be due to the shift in program priorities. In fiscal year 1981, HUD funded mostly housing and public works projects. In these types of projects, the target population is more clearly established, and demographic information is more readily available. In contrast, Michigan funded a large percentage of economic development projects, and although these projects may also serve high percentages of low- and moderate-income persons, they are more difficult to target. (See enc. III.)

HUD, State, and other interest group officials all stated that it was too early to adequately compare Michigan's program with the past HUD-administered program. The officials said that Michigan's program was in its early implementation phase, and certain aspects of the program were not sufficiently developed. Nevertheless, the officials believed that Michigan's program compared favorably with the HUD program. Some officials believed that, ultimately, Michigan's program could better serve local community needs. (See enc. IV.)

Local community officials also generally perceived Michigan's program favorably. For the most part, local officials who were successful in obtaining funds approved of the State's program design, award process, and regulations. Local officials who were not successful in obtaining funds were less enthusiastic about the program but still believed it had more positive than negative aspects. Both groups preferred the State program over the past HUD-administered program. (See enc. IV.)

Michigan distributed information on the proposed program throughout the State through its 14 regional planning agencies

and also made the information available to other interested parties for review and comment. Six public hearings were held to receive citizen input. All persons wishing to testify were given the opportunity, and testimony was received from local and regional officials, private citizens, and interest groups. The State also held 14 workshops--1 in each of the State's planning regions--to obtain comments on its program. (See enc. II.)

We provided a draft of this report to your office on February 25, 1983, for review and comment. We offered to meet with you or your staff to obtain oral comments on the report, or to receive your written comments if you desired. Subsequently, we talked by telephone with the Director of Financial Programs, Office of Community Development, Michigan Department of Commerce, who advised us that the State had no significant differences with the report and that no written comments would be provided.


- - - -

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 Michigan's President of the Senate, Speaker of the House, and U.S. congressional representatives; the HUD regional administrator responsible for the State of Michigan; and other interested parties.

Thank you for the cooperation of and time spent by Department of Commerce 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,



Walter C. Herrmann, Jr.
Regional Manager

Enclosures - 5

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	7
	Michigan designed its program emphasizing public participation	7
	Michigan adhered to its funding distribution method and selection criteria	11
	Conclusions	16
III	COMPARISON OF HUD- AND STATE-FUNDED ACTIVITIES AND POPULATION TARGETED	18
	Major activities funded under HUD's 1981 program and Michigan's 1982 program	18
	Benefits targeted to low- and moderate- income persons under the 1982 Michigan program versus the 1981 HUD program	21
	Conclusions	22
IV	PERCEPTIONS: COMPARISON OF STATE- AND HUD-ADMINISTERED PROGRAMS	23
	State, HUD, and other views on State and former HUD program	23
	Views of grantees and unsuccessful applicants	24
	Conclusions	31
V	OBJECTIVES, SCOPE, AND METHODOLOGY	32

ABBREVIATIONS

DOC	Department of Commerce, State of Michigan
HUD	Department of Housing and Urban Development
MSHDA	Michigan State Housing Development Authority

INTRODUCTION

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) marked a new beginning in 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 the States' implementation of the programs. This report provides information on the Small Cities Community Development Block Grant Program in the State of Michigan. 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 Michigan 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 had its beginnings with the 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 populations 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 communities 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 grants 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 the Omnibus Budget Reconciliation Act of 1981 was passed 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 and to do so with the cooperation of small communities.

Title III of the Omnibus Budget Reconciliation Act of 1981 made substantial revisions to the administration of 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. Title III gives States the option to assume primary administrative responsibility for the Small Cities Program, including distribution of 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 lieu of preparing a block grant application, the Omnibus Budget Reconciliation Act of 1981 requires each State electing to administer the program to prepare a statement of community development objectives and its projected use of funds. The projected use of funds shall consist of the method by which it 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 the maximum feasible priority to benefiting low- and moderate-income families 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 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 the States, and to facilitate coordination of activities with different levels of government. Each State is required to certify to HUD that it has met these requirements.

If a State elects not to accept primary responsibility for administering the program or if it fails to submit the required certifications, small communities would continue to be eligible to receive small cities grants from the HUD-administered program.

In fiscal year 1982, 36 States and Puerto Rico elected to assume responsibility for administering 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.

As structured under the Omnibus Budget Reconciliation Act of 1981, 30 percent of the funds appropriated to the Community

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

In designing its Small Cities Program, Michigan's priorities were to: (1) support and enhance economic recovery efforts in Michigan communities by funding projects which created or retained jobs for Michigan workers; (2) help Michigan's small and rural communities conserve and expand their housing stock, preserve neighborhoods, and provide assistance to low- and moderate-income residents; and (3) remedy serious deficiencies in the infrastructure of Michigan's communities, particularly those posing immediate threats to health and safety. Michigan's Department of Commerce (DOC), which was responsible for designing the State's program, received direction primarily from the Governor and the State legislature. In his State of the State Message, the Governor stressed the need for funds to be targeted for economic development and the maintenance of basic services such as water and sewer lines and roads. Throughout the design phase, DOC kept the Governor's Economic Development Cabinet informed of its activities and progress through meetings and reports. The State of Michigan's House and Senate Appropriations Subcommittees held hearings on the program, and the subcommittees were influential in having a public works component added to the program.

Input from citizens, local governments, and other interested parties also played an important part in the design of the program. HUD's Detroit Area Office viewed its role as providing (1) assistance to the States when requested and (2) advising the States on what the national policy and legislative requirements were, but not on how to comply unless requested.

HUD officials said that Michigan has made and continues to make many requests for technical assistance from them. Michigan has asked for assistance on subjects ranging from program design to establishing policies that will help assure that local communities comply with Federal regulations. In addition, HUD has sponsored a number of seminars to help inform State officials about block grant requirements. From the State's perspective, DOC officials were pleased with the assistance HUD provided

during the design of the program. According to these officials, HUD was helpful in providing insight on potential administrative problems, project selection techniques, and Federal certification requirements.

Reflecting its program priorities, in fiscal year 1982, Michigan funded 88 projects totaling about \$20.7 million in three categories: economic development (project implementation and startup planning), housing, and public works. Examples of projects funded include land acquisition, construction, demolition, rehabilitation, and loans to private businesses through local communities for economic development projects. Twelve other grants totaling about \$8.6 million were funded to fulfill prior HUD multiyear commitments before projects were selected. On the basis of priorities Michigan established in designing its program, the Governor allocated the State's fiscal year 1983 Small Cities Program funds to the following project categories:

<u>Project category</u>	<u>Small Cities Program allocation</u> (millions)
Economic development and public works Implementation projects	\$13.3
Economic development start-up planning projects	1.0
Housing projects	7.0
State administration	<u>0.6</u>
Total	<u>\$21.9</u>

^aExcludes \$8.6 million that was previously committed to multiyear grants under HUD's Small Cities Program.

In fiscal year 1983, Michigan made some changes in its Small Cities Program. Funds will be specifically earmarked for public works, the State housing development authority will have a more autonomous role, and a special advisory committee will review the implementation of the program and provide recommendations to DOC.

Michigan does not intend to change program priorities. Economic development projects that create jobs or prevent job loss will still be the top priority. However, beginning in fiscal year 1983, public works projects did not have to be linked to an economic development proposal, as was usually the case in fiscal year 1982.

The Michigan State Housing Development Authority (MSHDA)-- as in fiscal year 1982--will manage the housing portion of the program under an administrative agreement with DOC. In fiscal year 1982, the housing authority was responsible for reviewing applications, making recommendations on housing applications to DOC, and providing technical assistance and some monitoring. Its role will be expanded in 1983 to include all monitoring, auditing, application review, and technical assistance responsibility for housing projects.

The Governor has also appointed a special advisory committee to review program activities. DOC must provide the committee with an annual program report that (1) describes all approved projects during the past fiscal year and (2) includes recommendations for the administration of the program during the coming year. On the basis of its review of the annual report, the committee will make its recommendations concerning any program changes to the Director of DOC.

DESCRIPTION OF STATE AND LOCALDECISIONMAKING PROCESS

In designing its 1982 Small Cities Program, Michigan used various methods to meet the public participation certifications required by Title III of the Omnibus Budget Reconciliation Act of 1981. Proposed program information was distributed to local governments throughout the State and made available to other interested parties for review and comment. Public hearings and workshops were also held to obtain input from citizens, local governments, interested groups, private organizations, and consultants. Generally, State and local officials favorably viewed the State public participation process. At the local level, most of the community governments that received a grant (1) got help from individual citizens and other interested parties in determining local needs and (2) conducted a formal needs assessment when formulating plans for specific Small Cities Program projects.

In implementing its program, Michigan selected projects for funding in accordance with the procedures and criteria outlined in its statement of objectives. Michigan used different processes to select applications for funding which were designed to meet special characteristics and scheduling considerations for its funding categories--housing, economic development, and public works. For example, applications for housing projects were reviewed in a single, annual competitive process, while applications for public works and economic development projects were accepted and reviewed throughout the year and funding decisions made on a discretionary basis.

MICHIGAN DESIGNED ITS PROGRAM
EMPHASIZING PUBLIC PARTICIPATION

Title III of the Omnibus Budget Reconciliation Act of 1981 requires each State to certify, among other things, that it

- furnished citizens information about the amount of funds available for proposed community development and housing activities, and the range of activities that may be undertaken;
- allowed affected citizens or, as appropriate, units of local government the opportunity to examine and comment on proposed statements of community development objectives and projected use of funds;
- held at least one public hearing to obtain the views of citizens on community development and housing needs; and
- made the final statement available to the public.

To meet its certifications, Michigan's DOC distributed copies of the draft program design throughout the State to solicit both written and oral comments. The primary means of distribution was through the 14 regional planning agencies located in the State. These agencies were asked to distribute the draft to local governments in their respective regions. Local governments were further notified that the draft program design was available for review through DOC's newsletter, which was sent to all local governments in Michigan. Finally, news releases and newspaper advertisements alerted the public about where to examine and comment on the draft program.

In fiscal year 1982, a total of six public hearings were held by Michigan to solicit local input to the draft Small Cities program design. Of the six hearings, four were sponsored by DOC in various parts of the State. The remaining two hearings were held, one each, by the senate and house appropriations committees in Lansing. All persons wishing to testify were given the opportunity, and testimony was received from local and regional officials, private citizens, interested groups, and consultants.

Public notification of the hearings was made through newspapers in the area where a hearing was held and through notices sent to regional planning agencies and local officials. The hearings were held after DOC had prepared a draft of the program design, but before the final certification statement was sent to HUD. The primary purpose of the hearings was to obtain citizen input and reaction to DOC's draft program design.

--DOC also held 14 workshops--1 in each of the State's planning regions--to obtain additional comments from local government officials, interested groups, private organizations, and consultants. Over 700 people attended these workshops.

Meetings were also held with officials of the Michigan Council on Intergovernmental Relations to discuss the draft program design. Other professional groups, such as the Michigan Housing Coalition and the Association of Community Planning Directors, also provided comments to DOC during meetings and in writing.

Through a questionnaire, we contacted a statistical sample of grantees and 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.

Ninety-six percent of the grantees and 88 percent of the unsuccessful applicants said that the State informed them of its

intention to have a program before providing them with information on procedures and requirements for program participation. Respondents said that this information was provided to their communities by the following means:

<u>State method of dissemination</u>	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Mailings	89	66
Meetings	82	78
Individual communications	46	22
Other	21	23

Grantees and unsuccessful applicants said that the information provided by the State included the following:

<u>State information</u>	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Program goals	100	85
Eligibility requirements	100	83
Grant award process	100	75
Administrative requirements	71	61

Eighty-nine percent of the grantees and 69 percent of the unsuccessful applicants said that the State asked them for input into the design of the program. Of those, 75 percent of the grantees and 57 percent of the unsuccessful applicants said they responded to the State's request for input.

Eighty-nine percent of the grantees and 60 percent of the unsuccessful applicants said the State provided them with copies of the proposed draft procedures and/or regulations for comment. Of those, only 46 percent of the grantees and 33 percent of the unsuccessful applicants provided comments to the State.

Most of the grantees and unsuccessful applicants responded that the amount of communication that took place between themselves and the State regarding the program's design was adequate. Overall, however, grantees were much more satisfied than unsuccessful applicants. Whereas 96 percent of the grantees believed that communication was adequate or better, only 47 percent of the unsuccessful applicants held the same view. Four percent of the grantees and 40 percent of the unsuccessful applicants said that the amount of communication was less than adequate. Thirteen percent of the unsuccessful applicants indicated that they had no basis to judge its adequacy.

Michigan's Director of Community Assistance, Office of Community Development, told us that public participation had a significant impact on the design of the State program. He said that the 4 public hearings and 14 workshops proved to be a very effective means to obtain public input. He noted that no one who wanted to provide input was denied the opportunity to do so. According to the director, the hearings and workshops resulted in major changes to the program design.

Officials of the Michigan Council on Intergovernmental Relations told us that the State's policy of holding geographically dispersed public hearings and workshops was good and should be continued. However, they said that public hearings should not be the only method used to gain public input into the program design. The officials were of the opinion that local communities should play a larger role. They believe that it would be preferable if State and local governments made joint decisions on how the program will operate or if the State developed the program in consultation with local officials.

How local communities designed their programs

Seventy-nine percent of the grantees responding to our questionnaire said that they used input from participants that were not part of the community's government in developing plans for their community's program. Forty-six percent of the communities said that individual citizens participated in the determination of its community development needs. Assistance from other sources cited frequently as helping to determine local needs came from consultants or contractors (43 percent), regional advisory council (29 percent), and councils of governments (25 percent).

When asked by what means individual citizens or citizen groups participated in the development of their communities' program plans, 64 percent of the grantees said the participation was through meetings open to the public, 50 percent said through individual contact, and 39 percent said through public hearings.

In order to help identify local development needs, 93 percent of the grantees indicated that a formal assessment of their community's needs was conducted prior to submitting their applications to the State for funding. Sixty-four percent of the communities said that their local government conducted the needs assessment, 43 percent said that the assessment was performed by a consultant or contractor, and 7 percent said the county government made the assessment.

The following procedures were most frequently cited as included in communities' needs assessments:

<u>Procedures cited</u>	<u>Grantees</u> (percent)
Review of community statistical data	71
Visual inspection of community conditions	68
U.S. Census data	43
County data	36
Survey of households	21

Grantees cited the following factors as important in selecting specific projects and activities to include in their community's funding application under the Small Cities Program:

<u>Important selection criteria</u>	<u>Grantees</u> (percent)
General knowledge of community officials	89
Previously prepared master plan	86
Comments from individual citizens	82
Needs assessment	79
Comments from citizen groups	73
Potential for attracting other funding sources	65
Suggestions from State officials	59

MICHIGAN ADHERED TO ITS FUNDING DISTRIBUTION
METHOD AND SELECTION CRITERIA

In its statement provided to HUD, Michigan said that it would use several different processes in selecting Small Cities Program grant applications for funding. Numerical scores representing project need, project impact, and project effectiveness were to be used in evaluating public works, economic development, and housing projects. Startup planning grants were to be selected through a less formal DOC staff evaluation. Housing applications were to be reviewed and ranked in a single, annual competitive process. Public works, economic development, and startup planning applications, however, were to be accepted and evaluated continuously, and funding decisions made on a discretionary basis. Our review of a statistical sample of fiscal year 1982 applications for Small Cities Program funds showed that Michigan followed the application selection processes that were described to HUD in its program statement.

Michigan developed several processes
to use in selecting projects for funding

Michigan developed different processes to select applications for funding. The selection process was designed to meet the special characteristics and scheduling considerations

for the three project categories funded--housing, economic development, and public works. The total selection process was coordinated by DOC, although other State and local organizations took part in reviewing or commenting on applications. DOC's director made the final selection decisions.

The selection process for housing applications involved a review by MSHDA in a single, annual competitive process. MSHDA ranked the fiscal year 1982 applications and sent its funding recommendations for housing projects to DOC in a single list. Applications were accepted continuously by DOC in the selection process for public works and economic development projects. Under this process, project applications are not ranked or prioritized together but evaluated on a case-by-case basis, and funding decisions are made on a discretionary basis.

Numerical scores were used in evaluating applications for all three project categories. Each application could be awarded a maximum of 400 points. The 400 points were scored as follows: project need (80 points maximum), project impact (200 points maximum), and project effectiveness (120 points maximum).

Project need scores were computed annually by DOC for all eligible communities. The score was based on a quantitative formula including factors such as local incidence of poverty, unemployment figures, and tax base. Project impact scores were based on ratios calculated for a project's potential to (1) leverage or attract other public or private moneys, (2) create or retain jobs, and (3) target benefits to low- and moderate-income persons.¹ Effectiveness scores were based on criteria that changed for each category activity to reflect the different purposes and priorities, and to recognize the unique aspects of each proposed project.

The selection process for the "startup" planning grants involved only a DOC staff evaluation. No numerical scoring or ranking of the application was used to select the successful startup planning grants.

Before making any decisions concerning the applications received, DOC requested comments from regional planning agencies' review committees. The regional planning committees consisted of an equal representation of cities, villages, townships, and counties. DOC allowed the local committees 20 days to review and submit comments on each project application received from its region. The review committees did not rank or assign scoring points to applications.

¹Michigan is using HUD's standard of 80 percent of median income or below as the criterion for defining low- and moderate-income.

DOC also asked other interested agencies, such as the State's Travel Bureau, Energy Administration, Office of Economic Development, and Department of Transportation to comment on the applications. The following table shows the project funding limit, application selection process, and the principal reviewing office for the different project categories.

<u>Project category</u>	<u>Project funding limit</u>	<u>Application selection process</u>	<u>Reviewing organization</u>
Economic development:			
Implementation	\$750,000	Continuous	DOC
Planning/startup	25,000	Continuous	DOC
Public works	750,000	Continuous	DOC
Housing	250,000	Annual competition	MSHDA
HUD multiyear grants	(a)	(a)	DOC

^aNot applicable.

Selection process for housing project

Housing projects were designed to primarily help small communities meet their low- and moderate-income residents' housing needs. Housing applications received by Michigan were ranked in an annual competition. Housing applications for the fiscal year 1982 program had to be sent to the State by the July 1, 1982, cutoff date. Late applications were not considered for funding.

All applications were evaluated by MSHDA using the three factor-point scoring process. The applications were then ranked by an application score. Applications were recommended for funding by beginning with the highest score and moving down the list until all funds earmarked for housing were used. Housing projects were limited to no more than \$250,000.

The project need score and the project impact score for housing projects were determined as explained on page 12. Project effectiveness scoring was divided into two parts. The first part of the score was based on criteria which the reviewer had to consider in evaluating the application. Mandatory criteria included such factors as households served or administrative costs. The maximum value an application could receive in meeting mandatory criteria was 60 points.

Another 60 points could be earned by the applicant in meeting optional criteria. The optional criteria included 18

factors. Each factor could be assigned a score ranging from 10 to 20 points. The reviewer considered any of the optional factors which appeared appropriate and determined how well the application met the factors. Assessment guides were published for each factor for the reviewer's consideration. The reviewer assigned points to the optional and mandatory criteria to arrive at a final effectiveness score for the application.

After each reviewer had evaluated and scored each application, a MSHDA review team met to (1) determine a consensus score for each of the three categories--need, impact, and effectiveness--and (2) total the points for the application. The review teams evaluation was also reviewed by a MSHDA Executive Review Committee. The committee's review was to agree on the final application scores assigned by the review team and to rank all projects according to score. This ranking was then sent to the MSHDA director for approval and to the DOC director for final review and approval. In fiscal year 1982, DOC accepted all of MSHDA's recommendations.

Selection process for economic development/implementation projects

Economic development grants were to help communities participate in projects that encouraged the private sector to create or retain jobs. Applications for economic development projects were accepted continuously throughout the year, and funds were awarded through a discretionary process rather than on an annual competitive basis. Grants were limited to a maximum of \$750,000.

The review process for economic development applications was similar to that used for the housing applications. Need scores were precalculated for all eligible communities. Impact scores were determined on the basis of ratios of benefit to low- and moderate-income residents, other dollars leveraged with small cities funds, and jobs created or retained because of the proposed economic development project.

Effectiveness points were assigned to economic development applications by a list of potential factors the reviewer was to consider when evaluating the application. This list of factors was published in the Small Cities Program guidelines. The specific factors to be used in evaluating each application were left to the judgment of the reviewer.

After the reviewer had completed his/her evaluation, DOC review teams reviewed the applications and then wrote a memo to a DOC Executive Review Committee which described the project and recommended those factors the committee should consider when scoring the effectiveness category. The committee either accepted or rejected the review teams' suggested factors and added other new factors, if needed, for a complete evaluation. The total maximum points for all selected factors must equal 120

points--the effectiveness category maximum. Then, the committee determined a consensus score for each factor and a consensus score of effectiveness for the application. The committee also assigned the total score to the application. (In fiscal year 1982, applications needed 290 total points to receive funds.) The committee also prepared a written recommendation to the DOC director for each application it believed should be funded. The DOC director made the final determination whether to approve or deny funding for each application.

Selection process for economic development/startup planning projects

Startup planning grants were designed to help communities conduct the preliminary activities needed to identify feasible, economic development projects and to develop good applications.

Applications for startup planning grants were submitted throughout the year, and awards were made on a continuous basis. No scores were assigned to these applications. Startup grants were limited to \$25,000, and the local community had to match 10 to 50 percent of the grant amount, depending on the community's precalculated need ranking.

Selection process for public works projects

Public works project grants were designed primarily to meet the most serious and urgent public works needs of communities (those that pose an imminent threat to community health or safety). Applications for public works projects were considered continuously throughout the year. Maximum grants were \$750,000. Public works projects were funded from the \$13.3 million earmarked for economic development projects. The process used for selecting public works projects was the same as the process used for selecting economic development projects.

Results of our review of the Michigan selection process

We reviewed DOC application files and interviewed MSHDA and DOC personnel to determine whether the application selection processes used by Michigan for fiscal year 1982 were the same as those described in its statement provided to HUD. We used random sampling techniques to select 70 applications for review from a universe of 219 applications. The following table provides a profile of the applications we examined:

Applications Review Sample

	<u>Total applications received by Michigan</u>	<u>Applications examined which did not receive funding</u>	<u>Applications examined which received funding</u>	<u>Total applications examined</u>
Housing	74	11	7	18
Public works	26	6	2	8
Economic development	<u>119</u>	<u>23</u>	<u>21</u>	<u>44</u>
Total	<u>219</u>	<u>40</u>	<u>30</u>	<u>70</u>

We used Michigan's fiscal year 1982 "Final Guidelines" for the Small Cities Program to define the specific procedural steps the selection process was to follow. For each application, we determined whether evidence existed to show that the selection steps were used. For example, block grant guidelines required that each applicant submit a "Notice of Intent" form before sending in an application for funds. We determined whether the State required each applicant to comply with this step of the selection process.

We also reviewed file documents to determine the criteria used to score an application, whether documents in the file supported the points assigned to each application, and whether the DOC decision to grant or deny funds for an application was adequately explained. In addition, we compared the criteria used to evaluate the applications with the criteria published in the "Final Guidelines" to determine whether Michigan used the same criteria that was in its statement to HUD.

On the basis of our review, we determined that 64 applications were evaluated by DOC review teams using the guidelines outlined in Michigan's statement to HUD. In six cases, evidence could not be located in the files which would verify State compliance with published guidelines or evaluation criteria. To determine whether Michigan followed its published selection procedures in these cases, we interviewed the MSHDA or DOC staff who evaluated the application. In all six cases, the staff produced documents or offered explanations which showed that the guidelines had been followed.

CONCLUSIONS

In designing its Small Cities Program, Michigan used various methods to meet the public participation certifications required by the Omnibus Budget Reconciliation Act of 1981. Information on the proposed program was distributed to local communities, and

made available to other interested parties, for review and comment. Citizens, local governments, and other interested parties were also provided the opportunity to provide comments at 6 public hearings and 14 workshops held throughout the State. The public participation process was generally favorably viewed by State and local officials.

The results of our questionnaire showed that public participation also played a part in helping local governments determine their community development needs. Seventy-nine percent of the responding grantees used input from persons outside their governments to help identify local needs. Individual citizens, consultants, regional advisory councils, and councils of governments were cited most frequently as providing input. Ninety-three percent of the grantees also said that they conducted a formal assessment of their community development needs prior to applying for Small Cities Program funds.

Michigan implemented its program in accordance with the procedures and criteria it outlined to HUD in its program statement. Michigan designed its selection processes to meet special characteristics and scheduling considerations for its three funding categories--housing, economic development, and public works. Housing applications were reviewed in a single, annual competitive process. Public works and economic development applications were reviewed throughout the year and selected on a discretionary basis.

COMPARISON OF HUD- AND STATE-FUNDEDACTIVITIES AND POPULATION TARGETED

Projects Michigan funded under its fiscal year 1982 program reflected different priorities than projects funded by HUD in fiscal year 1981. Although both HUD and Michigan funded similar types of projects, Michigan emphasized economic development projects, whereas HUD emphasized funding projects that emphasized neighborhood housing rehabilitation and public works.

Both Michigan and HUD targeted the low- and moderate-income population as primary beneficiaries of their programs. However, the percentage of targeted beneficiaries who were low- and moderate-income persons was less under the State program than under the HUD program. This decrease may be attributed to the State's shift from housing rehabilitation projects, where the benefiting population is more easily identified, to economic development projects, where specific beneficiaries are more difficult to identify.

The State annual report to HUD on its performance in operating the program has not been finalized, pending final guidance from HUD on format and requirements. Accordingly, procedures on how to document who finally benefited from the projects have not been determined. At the time of our review, only housing project performance reports required income information on persons who have benefited.

MAJOR ACTIVITIES FUNDED UNDER HUD'S
1981 PROGRAM AND MICHIGAN'S 1982 PROGRAM

Michigan, in fiscal year 1982, funded the same types of projects that HUD funded in fiscal year 1981. However, Michigan designed its program to emphasize economic development projects. As a result, housing rehabilitation and public works projects decreased, and economic development projects increased. The State and HUD each funded projects totaling about \$21 million.

In examining HUD grant records for fiscal year 1981, we found that HUD had awarded 47 grants, 12 of which were multiyear grants. The average HUD award was for \$459,319, and grants ranged from \$93,000 to \$900,000. HUD funded 23 projects which cost \$500,000 and over.

Michigan awarded 88 grants, excluding HUD multiyear commitments. The average grant was for \$235,475, and the grants ranged from \$2,400 to \$750,000. The State funded 11 projects amounting to at least \$500,000 and funded 28 projects for under \$100,000. Many of these smaller projects were startup/planning grants for economic development projects. The following table (see p. 19) shows the number of projects funded at various cost ranges for the HUD and State programs:

Project Ranges for HUD and Michigan Grantees

<u>Project range</u>	<u>Number of grantees</u>	
	<u>HUD</u>	<u>Michigan</u>
Below \$100,000	2	28
\$100,000 - \$249,999	8	16
\$250,000 - \$499,999	14	33
\$500,000 - \$750,000	<u>23</u>	<u>11</u>
Total grantees	<u>47</u>	<u>88</u>

As shown in the following table (see p. 20), in comparing information on Michigan and HUD activities, we found that the State awarded over \$13.4 million to economic development and public works (i.e., public facility) projects. Another \$6.5 million went to slum clearance and private and public housing rehabilitation projects which primarily had neighborhood rehabilitation as a goal. The remaining funds went to projects such as startup planning and other functions.

HUD, in fiscal year 1981, awarded grants totaling \$11 million to clearance, private and public rehabilitation, and property acquisition projects which had neighborhood rehabilitation as a goal. HUD also awarded \$7.3 million for public facility projects. Only \$0.9 million was awarded by HUD for economic development-type projects. The remaining funds went primarily to planning and other functions. Also, Michigan's Small Cities Program grants were supplemented with substantially more funds than the HUD Small Cities Program grants. In 1982, State grants were supplemented with \$119.5 million of local, State, private, and other Federal funds compared with \$600,000 under the 1981 HUD program.

Comparison of HUD Fiscal Year 1981 and
Michigan Fiscal Year 1982 Small Cities Grants

	<u>HUD 1981</u>	<u>State 1982^a</u>
Number of grants	47	88
Average size of award	\$459,319	\$235,475 267,488 ^c
Number of applications for more than one community	0	4
Average community size	13,271	9,189
Grants supported by other funds:		
Number	4	77
Source and amounts:		
Local	\$520,666	\$ 12,206,474
State	100,000	6,159,684
Private	0	89,681,500
Federal	<u>0</u>	<u>11,472,932</u>
Total	\$620,666	\$119,520,590

Percentages and dollar awards by activity: ^b	<u>HUD 1981</u>		<u>State 1982</u>	
	Housing rehabilitation	47%	\$10,209,215	31%
Public facilities	34	7,302,309	26	5,369,234
Economic development	4	923,000	39	8,044,720
Property acquisition	2	448,200	0	0
Clearance	2	366,550	0.04	9,000
Planning	1	121,500	0.46	94,500
Other	<u>10</u>	<u>2,217,226</u>	4	<u>758,757</u>
Total funds awarded	100%	\$21,588,000	100.5%	\$20,721,786

^aFor the purposes of our comparisons, we did not include \$8.6 million that was part of the State's allocation but were committed to past HUD-approved, multiyear grants because the State did not have control over that 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.

^cThis amount includes HUD's multiyear grants.

Projects approved for fiscal year 1982 Small Cities funds were directly related to Michigan's program priorities. The

highest percentage of funds spent were used for economic development, specifically for commercial and industrial development projects.

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

On the basis of local community applications for HUD and Michigan Small Cities Program funds, the benefits targeted to low- and moderate-income persons declined by 19 percentage points under the State program, compared with the prior HUD program. This may be due in large part to the shift in priorities under Michigan's program from housing rehabilitation projects to economic development projects.

Michigan's annual report to HUD on program performance had not been finalized at the time of our review. As far as its own reporting requirements, Michigan was receiving quarterly performance reports from its local communities. While expected benefits to low- and moderate-income persons were required to be described in applications, information regarding actual project beneficiaries was being reported only on housing projects.

Results of HUD and Michigan
comparison of benefit to low-
and moderate-income persons

HUD and Michigan each funded projects that primarily affect low- and moderate-income persons. However, the beneficiaries who were low- and moderate-income persons declined 19 percentage points (from 91 to 72) under Michigan's program. Data used to compare beneficiaries of the two programs were taken from applications which showed how local communities planned to spend their block grant funds rather than how they actually spent the money.

The changes in beneficiaries of Michigan's program may be explained by the shift in priorities. In fiscal year 1981, HUD funded mostly housing rehabilitation and public works projects, where the beneficiaries are more easily identified and demographic information is readily available. In contrast, Michigan funded a larger proportion of startup/planning and economic development projects. Although these types of projects may also serve high percentages of low- and moderate-income persons, future benefits (e.g., job creation/job retention) and specific beneficiaries are more difficult to identify. While we were able to obtain low- and moderate-income data on 46 of 47 HUD applications, we were unable to obtain such data on 19 of 88 State applications. Most of the 19 applications were for startup/planning projects.

Michigan's Small Cities Program
reporting requirements

DOC officials said that a final decision will not be made on what to include in the State's annual performance report to HUD until HUD provides more guidance. As far as reporting on the beneficiaries who were low- and moderate-income persons, DOC officials anticipate that Michigan will use application data and records generated by project-rating teams to show that target populations were expected to receive benefits. In addition, the officials stated that they will use annual audits and project closeout reports at the local level to show that application expectations were achieved.

DOC, which is responsible for monitoring startup/planning, economic development, and public works projects, and MSHDA, which is responsible for monitoring housing projects, have both issued guidance to local communities on what their quarterly performance reports should contain. DOC guidance referred to compliance with special program-reporting requirements but did not specifically mention data on low- and moderate-income persons. Moreover, the several project progress reports submitted to DOC that we examined did not address this issue. MSHDA guidance, on the other hand, specifically called for income information on households that have benefitted from the project.

CONCLUSIONS

Michigan and HUD funded similar types of projects under the Small Cities Program. However, Michigan put emphasis on projects designed to help improve the State's economic climate, while HUD funded projects emphasizing neighborhood rehabilitation and public works. Activities funded by Michigan for fiscal year 1982 were consistent with established program priorities.

Projects funded by both HUD and Michigan were targeted to benefit low- and moderate-income persons. However, according to project application data, the percentage of low- and moderate-income persons expected to benefit from the program declined under Michigan's program. This decline in large part may be due to Michigan's shift in priorities under its program from housing rehabilitation and public works projects to economic development and planning projects. It is generally more difficult to identify beneficiaries of economic development projects than housing rehabilitation projects, where the beneficiaries are usually established and demographic information is readily available.

Michigan's annual performance report to HUD had not been finalized because the State was awaiting further guidance from HUD. Reporting procedures to document benefits from Small Cities Program projects had not been established.

PERCEPTIONS: COMPARISON OF STATE- AND
HUD-ADMINISTERED PROGRAMS

Although DOC, HUD, and interest group officials all stated that it was too early to adequately compare Michigan's Small Cities Program with the past HUD-administered program, their overall opinion was that the program compared favorably with the past HUD program and ultimately would better serve local community needs. During our review, Michigan's program was in its early implementation phase, and, in the opinion of some officials, certain aspects of the program were not sufficiently developed.

Local community officials' perceptions of Michigan's Small Cities Program were generally favorable. Local officials who were successful in obtaining funds, for the most part, approved of the program and rated it higher than the HUD program. Local officials who were not successful in obtaining funds were less enthusiastic about Michigan's program, but still preferred it over the past HUD-administered program.

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

DOC, HUD, and interest group officials believe that Michigan's Small Cities Program compares favorably with the HUD-administered program. DOC officials believed that because the State program emphasized economic development, it was more responsive to local community needs. The Director of Community Assistance in Michigan's Office of Community Development said that the program was more responsive to local needs because the State is closer, geographically and politically, to local governments. He said that funding for the Small Cities Program cannot meet all of a community's needs, but he believed that Michigan's program addresses a wider range of local needs than HUD's program did in the past.

The Director of the Community Planning and Development Division in HUD's Detroit Area Office said that the responsiveness of the program to local community needs depends on each community's priorities. HUD stressed housing because it is an ongoing community development need. Michigan's program emphasized economic development because of the economic distress in the State. Neither program is necessarily more able to meet communities' total development goals, and each program meets some portion of overall community needs.

Michigan Council on Intergovernmental Relations officials representing local governments were of the opinion that additional time is required to assess whether their constituents are better served by Michigan's or HUD's program. The officials said that if the State is flexible about ongoing program priorities and administrative procedures, local governments can be better served under the State's program.

Council officials also said that HUD and Michigan each provided good technical assistance to local communities. In this respect, the officials said that the State's Small Cities Program will ultimately compare favorably with the HUD program and that the responsibility should remain at the State level.

In comparing Michigan's and HUD's application selection processes, Council officials said that they preferred two aspects of HUD's process. First, HUD used criteria which were more clear in its selection decisions, whereas Michigan's decisions on public works and economic development applications were more subjective. Second, HUD selected applications for funding in an annual statewide competition, while Michigan, except for housing applications, selected applicants on a continuous basis. Council officials prefer competitive selection because it allows comparing all applications to one another and selecting those projects which best meet established criteria or local needs.

VIEWS OF GRANTEES AND UNSUCCESSFUL APPLICANTS

The attitudes of local officials whose communities received funding were very positive regarding Michigan's administration of the program. These officials generally approved of the program design, award process, and regulations. They also rated the State program higher than they rated HUD's.

Community officials who were unsuccessful in their attempts to obtain funding were less enthusiastic about the State's program from the standpoint of the selection process, but still believed the program had more positive than negative aspects. In addition, they generally preferred Michigan's program over the past HUD-administered program.

Strengths and weaknesses of Michigan's program

Although grantees and unsuccessful applicants had mixed views on strengths and weaknesses of Michigan's program, they generally agreed that it is equivalent to or better than other State or federally administered programs regarding the ability to meet local needs. Favorable views were also expressed concerning program shortcomings when compared with other programs, and State-provided assistance was regarded as being helpful to communities in preparing their application. Furthermore, grantees believed that all applications received equal consideration in the selection process, while 31 percent of the unsuccessful applicants believed that applications for economic development projects were given more consideration than other projects. Another 33 percent of the unsuccessful applicants believed that economic development or public works projects were given less than equal consideration.

Strengths of the program

Forty-three percent of the grantees and unsuccessful applicants indicated that the State program has particularly strong aspects regarding its design, award process, and regulations. Furthermore, some of these respondents provided comments on specific strengths of Michigan's program. Some of these comments follow:

1. Program design:

- allowed local communities to emphasize needed economic development projects,
- was simple and straightforward,
- provided funding to address specific State problem areas, and
- encouraged better communication at the local level.

2. Award process:

- encouraged rapid decisionmaking by the State,
- relied on an objective point system for selecting projects for funding,
- emphasized benefit to low-income persons in tandem with community demonstration of a viable program in the economic development area, and
- resulted in quicker responses to local applicants.

3. Program regulations:

- easy to understand,
- not burdened with excessive requirements, and
- very specific.

Weaknesses in the program

Twenty-nine percent of the grantees and 71 percent of the unsuccessful applicants believed the design, award process, and regulations of Michigan's program had significant shortcomings. Furthermore, some of these respondents provided particular comments regarding these shortcomings. Some of these comments follow:

1. Program design:

- required a community to contact too many State officials to get answers to questions,
- narrowed the range of eligible activities under the program,
- did not put enough emphasis on housing rehabilitation, and
- was too strict on public works projects.

2. Award process:

- was too slow and
- should have provided for more local input.

3. Program regulations:

- did not provide enough training to local officials on how to comply with regulations,
- did not put regulations in writing and make them available early enough, and
- could lead to differing interpretations of Federal and State regulations since two different State agencies (DOC and MSHDA) have monitoring responsibilities.

Small Cities Program shortcomings compared with shortcomings in other State or Federal programs

As illustrated below, the majority of the grantees and unsuccessful applicant respondents, about 81 and 56 percent respectively, viewed Michigan's program as having about as many as or fewer shortcomings than other State or Federal programs.¹

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Many more	4	6
More	8	17
About as many	27	24
Fewer	27	24
Many fewer	27	8
No basis to judge	8	20

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

Michigan's program meets local
community development needs

As the following table shows, 92 percent of the grantees and 57 percent of the unsuccessful applicants believed that Michigan's program adequately addresses the development needs of their communities.

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Much more than adequate	7	5
More than adequate	41	16
Adequate	44	36
Less than adequate	4	23
Much less than adequate	-	6
No basis to judge	4	14

Communities received State assistance
in preparing grant applications

Eighty-two percent of the grantees and 55 percent of the unsuccessful applicants received State assistance when preparing their applications. Thirty-nine percent of the grantees and 64 percent of the unsuccessful applicants requested the State assistance. Those receiving assistance rated the State's efforts as follows:

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Very great help	39	20
Great help	44	20
Moderate help	4	24
Some help	9	10
Little or no help	4	26

As shown above, the vast majority of the grantees (83 percent) found the assistance to be of great or very great help. On the other hand, only 40 percent of the unsuccessful applicants indicated that the assistance was a great or very great help.

Familiarity with State's award process

As shown in the following table, most respondents were familiar with Michigan's method of awarding grants, although grantees were more familiar than unsuccessful applicants.

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Very familiar	32	19
Familiar	61	53
Unfamiliar	7	28

Fairness of State's award process

The majority of the grantees believed that Michigan's method of awarding grants was fair. However, unsuccessful applicants' views were mixed. The following table provides a breakdown of respondents' views on this issue:

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Very fair	24	7
Fair	56	19
Neither fair/unfair	12	31
Unfair	8	35
Very unfair	-	7

Applicants' comparison of State
program with former HUD program

Fifty-four percent of the grantees and 59 percent of the unsuccessful applicants said they previously participated in HUD's Small Cities Program. Of those who had participated in the HUD-administered program, grantees and unsuccessful applicants generally agreed that the State's program is equivalent to or better than the HUD program in the following areas:

- Application procedures.
- Eligibility requirements.
- Variety of activities.
- Flexibility in population groups.
- State priorities.

Grantees also believed that the State program is better than the former HUD program regarding reporting requirements, technical assistance, and promptness of payments.

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, a large majority of grantees and most unsuccessful applicants responded that Michigan's procedures to be followed in applying for Small Cities Program funding were less burdensome than those for the HUD-administered program:

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Much more burdensome	-	5
More burdensome	7	10
Equally burdensome	7	29
Less burdensome	67	47
Much less burdensome	20	9

Eligibility and reporting requirements

Eighty-six percent of the grantees and 59 percent of the unsuccessful applicants who commented on eligibility requirements said that Michigan's requirements were as difficult as those for the HUD-administered program. The remaining 14 percent of the grantees were equally divided in their perception that the requirements were more and less difficult than HUD's. Thirty percent of the unsuccessful applicants said that Michigan's requirements were more difficult, while 11 percent said they were less difficult than HUD's requirements.

Fifty-three percent of the grantees believed that the State's reporting requirements for utilizing Small Cities Program funds were less burdensome than those required by the former HUD-administered program, and another 33 percent judged them as being equally burdensome. Only 13 percent said the State's reporting requirements were more burdensome.

Variety of activities funded

Sixty percent of the grantees and 43 percent of the unsuccessful applicants commenting on the activities and/or projects believed that Michigan's program allowed the same or a wider variety of projects as did the HUD program. Thirty-three percent of the grantees and 47 percent of the unsuccessful applicants viewed the State program as being more narrow in the variety of activities or projects compared with the HUD program. The remainder of the respondents said they had no basis by which to judge this.

Flexibility in determining
population groups

Ninety-three percent of the grantees and 71 percent of the unsuccessful applicants commenting on population groups believed that Michigan's program was about equal to or more flexible in determining population groups to target as the HUD program. Only 24 percent of the unsuccessful applicants believed the program allowed less flexibility than the HUD program, while the remaining respondents said they had no basis by which to judge this.

Technical assistance

Most grantees stated that Michigan's technical assistance was equally or more helpful than the technical assistance provided by HUD under the former program. Thirty-three percent said the State's assistance was more helpful. Twenty-seven percent said it was less helpful, and the remaining 7 percent said they had no basis by which to judge this.

State program priorities

Eighty-seven percent of the grantees and 48 percent of the unsuccessful applicants said that Michigan's program priorities were equal to or more consistent with the community's priority of needs than under the HUD-administered program. Another 7 percent of the grantees and 26 percent of the unsuccessful applicants said that the State priorities were less consistent. The remaining respondents said they had no basis by which to judge this.

Grant award method

Of the respondents that compared the fairness of Michigan's award process with HUD's, 47 percent of the grantees and 48 percent of the unsuccessful applicants said both programs were equally fair. Twenty-three percent of the grantees and no unsuccessful applicants said the State process was more fair, and 13 percent of the grantees and 26 percent of the unsuccessful applicants said it was less fair. The remaining respondents said they had no basis by which to judge this.

State reimbursements
or drawdowns

Forty-seven percent of the grantees able to compare Michigan's reimbursements, payments, or drawdowns with similar activities under the HUD program believed Michigan is equally or more prompt in making these payments than was HUD. More specifically, 33 percent said the State was more prompt, 13 percent said equally prompt, and 27 percent said that the State was less prompt. Over one-fourth (27 percent) of the grantees said they had no basis by which to judge this.

CONCLUSIONS

The perceptions of the local community officials and others have been generally favorable to Michigan's Small Cities Program. DOC officials believe the program enabled them to address one of the State's most pressing needs--economic development. HUD officials perceive the State program as being different in its priorities than their program, but see this as a reflection of changing State needs. Officials from the Michigan Council on Intergovernmental Relations were not entirely satisfied with the State's application selection process because of its perceived subjectivity, but they did see the opportunity for increased input through the newly developed Small Cities Advisory Committee. Finally, local community officials were supportive of the State program. Officials whose communities received funds approved of the program design, award process, and regulations, and favored the program over HUD's program. Officials whose communities did not receive funds had mixed opinions on the fairness of the selection process; however, they generally preferred the State's administration of the program over HUD's.

OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objectives of this work were to provide the Congress a report on the States' 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 the grant agreements with the local communities, and only one had started its monitoring work. Accordingly, our work was directed toward reviewing the State decisionmaking process through the selection of recipients, 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 the 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 1982 Small

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 preliminary results of this review on March 9, 1983, we provided a statement for the record before the Subcommittee on Housing and Urban Affairs, Senate Committee on Banking, Housing and Urban Affairs, on our views of States' early implementation of the Small Cities Program.

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. 32.) However, 6 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 Michigan, we met with DOC officials responsible for developing, designing, and implementing the Small Cities Program to obtain information and their views on (1) the State's decisionmaking process and (2) the State's administration of the program as opposed to HUD's administration of the program. We reviewed documents concerning Michigan'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 Small Cities Program funds.

We took statistical samples of both the grantee and unsuccessful applicant universes in order 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 set up for that purpose. We reviewed the applications, supporting documentation, and the steps Michigan took to select the grantees over the unsuccessful applicants.

We also sent two questionnaires to the sample groups--30 of 88 grantees and 41 of 131 unsuccessful applicants--to obtain perceptions from local communities 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 timeframe. 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 at the 95-percent confidence level. The sampling errors for the total grantee sample and unsuccessful applicant sample are no greater than plus or minus 6 percent and 7 percent, respectively, at the 95-percent confidence level. The sampling errors for the majority of questionnaire data in this report are no greater than plus or minus 11 percent for the grantee sample

and 10 percent for the unsuccessful applicant sample, and the largest sampling errors are 15.3 percent and 13.9 percent, respectively, all at the 95-percent confidence level. The results presented in this report represent responses weighted to reflect the responses of the populations surveyed. For the State of Michigan, the response rates for the grantees and unsuccessful applicants were 93 and 88 percent, respectively.

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

We also met with the Michigan Council on Intergovernmental Relations to determine its participation in the design of the State program and to obtain its views on the program and its administration.

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 headquarters, we reviewed the Community Development Block Grant Program's legislative history; HUD regulations, handbooks and notices; and other HUD documents and analysis. We also interviewed office directors and other staff members involved with the Small Cities Program under HUD's Assistant Secretary for Community Planning and Development.

At the HUD field office in Detroit, we interviewed community planning and development officials and reviewed appropriate documents to gather information on HUD's role in assisting Michigan in designing its Small Cities Program and to obtain views on the advantages and disadvantages of Michigan's administration of the Small Cities Program versus HUD's. We also gathered detailed

information from all of the successful applications HUD funded in 1981. These data were summarized along with the 1982 successful applicant data and used to show how the funds were used under Michigan's decisionmaking process versus HUD's decisionmaking process.

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