

UNDER THE KNIFE: A CASE STUDY OF THE IMPACT OF NEW FEDERALISM ON COMMUNITY DEVELOPMENT APPROPRIATIONS

The plight of the nation's communities gained national attention in the early 1970's.¹ While housing assistance programs undertaken by the federal government had existed since the days of the Depression, the concept of federal aid to the increasingly troubled urban centers of the country did not arise until the Kennedy Administration. Once conceptualized, however, community development assistance at the federal level grew almost exponentially. The Department of Housing and Urban Development (HUD) administered funding programs for urban renewal, model cities, urban beautification, neighborhood facilities, water and sewer facilities, street improvements, and dozens of other activities aimed towards developing the distressed communities. The programs were originally administered in the form of categorical grants.² Since 1974, these community development programs have been consolidated and administered through the block grant method.³

The term "community development" means any program designed to eliminate or prevent slums, blight, and deterioration and to provide improved community facilities and public improvements.⁴ The Community Development Block Grant (CDBG) and the Urban Development Block Grant (UDAG) methods provided federal assistance to state and local agencies to implement community development programs. This paper will analyze the impact of federal budget reductions on such assistance to distressed communities.

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

Housing and Community Development Act of 1974

As part of the Nixon Administration's federal assistance reform program, Congress enacted legislation in 1974 establishing five block grant programs, including the Housing and Community Development Act of 1974.⁵ The block grant program was designed to transform the piecemeal allocation of federal categorical grants into an efficient and

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1. 42 U.S.C. §5301 (1976 & Supp. IV 1980).
 2. See ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, CATEGORICAL GRANTS: THEIR ROLE AND DESIGN A-52 (1977) [hereinafter cited as CATEGORICAL GRANTS].
 3. See ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, BLOCK GRANTS: A COMPARATIVE ANALYSIS (1977). [hereinafter cited as BLOCK GRANTS].
 4. 42 U.S.C. §5304(a)(3) (1976 & Supp. IV 1980).
 5. Housing and Community Development Act of 1974, Pub.L.No. 93-383, 88 Stat. 633 (codified at 42 U.S.C. § 5301 *et seq.* (1976 & Supp. IV 1980)).

organized allocation of a single block grant to fund the various programs.⁶ The 1974 Act established the Community Development Block Grant (CDBG). The CDBG consolidated urban renewal, model cities, open space, urban beautification and historic site preservation, neighborhood facilities, water and sewer, and public facilities categorical grants. The primary objective of the CDBG is "the development of viable urban communities by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income".⁷

The Act outlined seven specific objectives to be supported by the various community development activities. These are the elimination of slums and blight, the elimination of conditions detrimental to health, safety, and public welfare, the provision of a decent home and living conditions to people of low and moderate income, the improvement of community services to people of low and moderate income, the more rational utilization of land and other resources, the revitalization of deteriorating neighborhoods, and the restoration and preservation of historic properties.⁸ By consolidating the often overlapping programs of financial assistance to communities, the Act sought to "foster the undertaking of housing and community development activities in a coordinated and mutually supportive manner."⁹ The underlying theory of a flexible block grant was the belief that local governments are better equipped to determine their needs and should be given the opportunity and responsibility to do so.

Activities eligible for funding under the Act included land acquisition, site improvements, code enforcement, building acquisition and demolition, infrastructure installation and improvements, construction of public works including neighborhood facilities, sewer and water facilities, streets, rehabilitation of buildings, and the provision of public services not otherwise available.¹⁰ The Act restructured the use of funds for public services to those areas only where other development activities were being "carried out in a concentrated manner".¹¹ This restriction was a result of a stated HUD objective preferring physical development over social service. In addition, it restricted the amount of funding available for public services to eight percent of the community's entitlement grant.¹²

The CDBG's were allocated under two methods — an entitlement method and a discretionary method.¹³ Under the entitlement method, HUD determined that certain urban areas were entitled to funds by

6. BLOCK GRANTS, *supra* note 2, at 32.

7. 42 U.S.C. §5301(c) (1976 & Supp. IV 1980).

8. *Id.*

9. 42 U.S.C. §5301(d) (1976 & Supp. IV 1980).

10. 42 U.S.C. §5305(a) (1976 & Supp. IV 1980).

11. *Id.*

12. *Id.*

13. 42 U.S.C. §5306 (1976 & Supp. IV 1980).

virtue of their population, average income, and percentage of low to moderate income inhabitants. These cities received block grants of a sum devised by statutory formula and distributed among entitled cities.¹⁴ The discretionary mechanism allocated grants based on competitive applications for funding of specific programs.¹⁵ The entitlement funding mechanism received seventy-five percent of the total appropriation; the remaining twenty-five funded the discretionary mechanism.

Prior to receipt of any funds, the CDGB program required a detailed application which included a summary plan of long-range goals, an annual plan for specific proposed activities, a program relating local needs to national objectives, certifications of compliance with a variety of federal statutes concerning civil rights, environmental protection, and citizen participation, and a housing assistance plan.¹⁶ The Act required detailed reporting procedures and annual program assessments. It authorized appropriation of funding for a three-year period and required the application to outline a three-year development strategy.

Housing and Community Development Act of 1977

In October of 1977, HUD proposed significant changes in the intent, regulations, and allocation formula of the Community Development Program.¹⁷ The Housing and Community Development Act of 1977¹⁸ embodied those changes. HUD re-emphasized the statutory requirements that all CDBG funded projects must principally benefit low and moderate income persons, or prevent slums and blight, or meet other community development needs having a particular urgency. The Act required more stringent review and approval criteria, and planning and program development requirements.¹⁹

The 1977 Act also revised the type of economic development activities eligible for funding. As amended, the Act sought to alleviate physical and economic distress through the stimulation of private investment and community revitalization in areas with a declining tax base. For instance, the Act allowed capitalization of local development corporations or small business investment corporations in their efforts at community development. In addition, the Act required that recipients quantify the actual dollars delivered to lower income persons, or areas, and expand the citizen participation aspects of their program. HUD increased the appropriation for entitlement grants and modified the allocation formula.²⁰

14. *Id.*

15. 42 U.S.C. §5307 (1976 & Supp. IV 1980).

16. 42 U.S.C. §5304 (1976 & Supp. IV 1980).

17. COMMUNITY DEVELOPMENT DIVISION OF SOUTH BEND, SUMMARY OF THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1977 AS AMENDED 3 (Fall (1980).

18. Pub. L. No. 95-128, codified at 42 U.S.C. §5301 *et seq.* (Supp. IV 1980).

19. *Id.*

20. *Id.*

The Omnibus Budget Reconciliation Act of 1981

Adopted as part of the Reagan Administration's New Federalism program,²¹ the 1981 amendments to the CDBG program drastically altered the manner in which federal funds are made available for community development purposes. A massive shift in control of the program to state and to local governments resulted.

Block grant revisions were the first phase of Reagan's New Federalism proposals. He sought to consolidate eighty-five categorical grants into seven block grants in an attempt to reduce red tape, streamline the delivery of funds, and return responsibility to state and local governments. The savings from increased efficiency in administration and decreased reporting requirements was intended to offset the budget reductions accompanying the consolidation.²² In response, Congress passed the Omnibus Budget Reconciliation Act of 1981²³ which consolidated fifty-seven categorical grants into nine block grants.²⁴ The consolidation included the CDBG program and resulted in major changes in funding mechanisms and allocation.

As part of the plan to shift responsibility to state and local governments, the 1981 amendments provide an option to the States to administer the Small Cities program, the discretionary funding program of the CDBG.²⁵ Under the 1974 Act, the federal government administered the program directly to local applicants. States could begin submitting applications on March 8, 1982 but to exercise the option they must match the federal funds. Furthermore, states must agree to undertake planning for community development, consult with local governments on the manner in which the funds will be distributed, and provide technical assistance to local governments.

The most significant change made by the 1981 amendments is the elimination of the extensive, in-depth application review by HUD prior to any grant. Instead of the detailed application required by the 1974 Act,²⁶ local and state governments need only submit to HUD "a final statement of community development objectives and projected use of funds."²⁷ Certifications that fund appropriations have met all statutory

21. Omnibus Budget Reconciliation Act of 1981, Pub. L. No. 97-35, 95 Stat. 357 (1981). See SHIPP, C.R.S. REP. NO. 82-995, INITIATIVES FOR A NEW FEDERALISM: PROGRAM ISSUES IN RESTRUCTURING THE FEDERAL SYSTEM (1982).

22. OSBOURN, C.R.S. ISSUE BRIEF NO. IB81044, THE FEDERAL SYSTEM IN THE 1980'S: MONEY, POWER AND RESPONSIBILITY 6 (1982).

23. Pub. L. No. 97-35, 97 Stat. 357, 384, codified in part at 42 U.S.C. §5301 (Supp. V 1981).

24. The nine block grants authorized by P.L. 97-35 are the Community Development Block Grant, the Elementary and Secondary Education Block Grant, the Community Services Block Grant, the Preventive Health and Health Services Block Grant, the Alcohol and Drug Abuse and Mental Health Block Grant, the Primary Care Block Grant, the Maternal and Child Health Block Grant, the Social Service Block Grant, and the Low-Income Energy Assistance Block Grant.

25. 42 U.S.C. §5306(d)(2) (Supp. V 1981).

26. 42 U.S.C. §5306(c)(2) (Supp. V 1981).

27. 42 U.S.C. §5304(a)(1) (Supp. V 1981).

requirements must accompany this statement.²⁸ Total emphasis is placed on the performance reviews. Local governments must file an annual report from which HUD determines whether they implement the CDBG programs and housing assistance plans in a timely manner, in accordance with the primary objectives of the Act, and with a continuing capacity to carry out the CDBG activities.²⁹

Although the Act still requires a public hearing to inform citizens of CDBG funding levels and the range of permissible activities funded, it no longer requires a written citizen participation plan, a public hearing on performance, encouragement of citizen views and proposals, or an obligation to respond to such proposals.³⁰ The Act permits profit-making organizations to use CDBG funds for economic development activities.³¹ No more than ten percent of a recipient's funds can be used for social services; however the HUD no longer requires recipients to provide social service activities only in areas in which physical community development activities exist.³² CDBG funds cannot be used to substitute for state or local funds.

Appropriations to CDBG for Fiscal Year 1980 and Fiscal Year 1982

In Fiscal Year 1980, Congress appropriated \$4,299,189,000 for the CDBG program at the national level.³³ Of that amount, \$2,675,945,000 was appropriated for the Entitlement program and \$969,202,000 for the Small Cities program.³⁴ For Fiscal Year 1982, the Reagan Administration froze appropriations at the present level of \$4,166,000,000 through 1986, which would result in a reduction of forty-six percent by 1986.³⁵ The President proposed that the states make up the difference resulting from the exchange of programs in his New Federalism Program.³⁶ In addition, the 1981 amendments revised the method of CDBG fund distribution to provide a 70%/30% split for entitlement and discretionary categories, rather than the 75%/25% under the 1974 Act. The number of entitlement cities among which to distribute the reduced entitlement funds increased from 699 in 1980 to 732 currently.³⁷ HUD also plans to reduce three-quarters of entitlement grants between ten to seventeen percent from last year.³⁸ These reductions and their impact will be an-

28. 42 U.S.C. §5304(b)(2) (Supp. V 1981).

29. 42 U.S.C. §5304(d) (Supp. V 1981).

30. Citizen participation plans and proposals were required under the original 1974 Act.

31. 42 U.S.C. §5305(a)(17) (Supp. V 1981).

32. 42 U.S.C. §5305 (Supp. V 1981).

33. OFFICE OF MANAGEMENT AND BUDGET, UNITED STATES BUDGET IN BRIEF: FISCAL YEAR 1980 5 (1980) [hereinafter cited as O.M.B.].

34. *Id.*

35. See 15 CLEARINGHOUSE REV. 773 (1982).

36. See text of note 21, *supra*.

37. UNITED STATES CONFERENCE OF MAYORS, THE FEDERAL BUDGET AND THE CITIES 15 (1982).

38. *Id.*

alyzed at the state level in Indiana and at the local level in South Bend, Indiana.

State Level Impact: Indiana — A Case-Study

In Fiscal Year 1980, the State of Indiana received CDBG funds in the amount of \$82,258,000.³⁹ Entitlement programs were funded at a level of \$41,706,000.⁴⁰ The funds were channeled directly to the entitlement areas and Small Cities program recipients under the 1974 Act and its amendments, thus by-passing the State. As a consequence, Indiana received no funds for State-level programs. However, with the 1981 amendments, Indiana has now elected to administer the nine block grants created by the Omnibus Budget Reconciliation Act of 1981.⁴¹

Indiana Governor Orr established an advisory committee to study implementation of the consolidations and designated a block grant coordinator. He then assigned four task forces to hold public hearings on how to spend the money. The legislature distributed the reductions, which amounted to thirty million dollars state-wide,⁴² proportionately among the consolidated programs. The budgets for the consolidated programs had to be reduced by an average of only 4.4%.

The State takeover of the community development program for small cities began March 8, 1982 with the initiation of application procedures.⁴³ In Indiana, the program is administered by the Indiana Commerce Department. The Department intends to emphasize economic development rather than other activities such as housing rehabilitation which was a HUD priority. Indiana also considers water and sewer facilities a major priority.⁴⁴ Because the program has not been in effect, its impact is difficult to determine. Indiana seems willing to administer as many programs as the Federal government allows.

Local Level Impact: South Bend — A Case-Study

In Fiscal Year 1980, the City of South Bend received \$4,044,000 of CDBG funds under the entitlement program.⁴⁵ Its total program costs for Fiscal Year 1980 were \$4,684,675⁴⁶ and the total block grant resources amounted to \$5,884,675.⁴⁷ Program income, loan proceeds,

39. O.M.B., *supra* note 33, at 3.

40. *Id.*

41. Stanfield, *Picking Up Block Grants — Where There's A Will, There's Not Always a Way*, NAT'L J., Apr. 10, 1982, at 616.

42. *Id.*

43. *Id.* at 617.

44. *Id.* at 620.

45. O.M.B., *supra* note 33, at 30.

46. SOUTH BEND COMMUNITY DEVELOPMENT DIVISION, THE SOUTH BEND, INDIANA COMMUNITY DEVELOPMENT BLOCK GRANT APPLICATION FOR PROGRAM YEAR 1980 59 (1980) [hereinafter cited as APPLICATION FOR 1980].

47. *Id.* at 61.

and the reprogrammed unobligated funds from prior program years provided the additional funds.

In compliance with the 1974 Act, South Bend conducted neighborhood profiles and targeted six areas as distressed Neighborhood Strategy Areas (NSA) in need of development assistance. In addition, the downtown Central Business District (CBD) is considered a target area. In 1979, the city submitted a detailed application containing a comprehensive community development program to be undertaken within these NSA's. The development strategy contains six components, funded in Fiscal Year 1980.⁴⁸

The first component is the housing rehabilitation assistance component. The assistance took the form of rehabilitation grants and rebates, emergency repair grants, interest subsidy grants, local homesteading, home improvement loans, Neighborhood Housing Services (NHS) revolving loan funds, and home modification grants for the handicapped. The second component funds code enforcement inspection, demolition costs, code enforcement rehabilitation funds, and NHS housing inspection funds. The public works component provided for general street improvements, lighting improvements, and public works. The parks and recreational facility improvement component funded play ground equipment replacement, general park improvements within the NSA's and tree planting. The fifth component, public service, funded legal services within the NSA, day care services, and Project Head Start. The last component, development, funded specific redevelopment projects. The projects included the Portage Avenue Local Development Corporation, the East Bank Redevelopment Corporation, the Monroe-Sample Redevelopment Corporation, the Miami Street Local Development Corporation, and the Indiana Avenue Local Development Corporation.⁴⁹

In addition to the program activities implemented within the NSA's, South Bend CDBG funds also support development activities within the central business district, a target area. In fiscal year 1980, CDBG funding financed improvement of the Century Mall and the YWCA, as well as the historical preservation of the Pharoah Powell House.⁵⁰

In Fiscal Year 1982, the City of South Bend received \$3,411,000 of CDBG funds under the entitlement program.⁵¹ The block grant funds available totaled \$4,176,000.⁵² The City established three local policies regarding community development. These policies require that every effort be made to leverage or generate additional private funds with

48. *Id.*

49. *Id.*

50. *Id.*

51. SOUTH BEND COMMUNITY DEVELOPMENT DIVISION, PROPOSED STATEMENT OF COMMUNITY DEVELOPMENT OBJECTIVES AND PROJECTED USE OF FUNDS — FY 1982 5 (1982) [hereinafter cited as PROPOSED STATEMENT].

52. *Id.*

limited CDBG funds, that the development of viable urban communities be based on a shared responsibility between the private sector, and that every effort be made to recycle and reuse limited CDBG funds by the development of revolving funds, loan guarantees, and reserve funds.⁵³

Initially the City distributed funds to NSA's and a newly created target area — the Neighborhood Conservation Area (NCA). In response to reduced CDBG appropriations, South Bend attempted to redefine its NSA target areas into smaller units limited to the most distressed areas of South Bend. In response to the intense political pressure exerted by residents of neighborhoods removed from the NSA's on area councilmen, the City's Community Development Division defined NCA's on the fringes of NSA's as eligible for CDBG funds.⁵⁴ As a result, the target area increased in size overall further dissipating the amount of available funds for specific projects.

As in Fiscal Year 1980, the development strategy for Fiscal Year 1982 was divided into components. The housing rehabilitation component funded the existing programs of homeowner's emergency loans, rehabilitation loans, and the Monroe-Sample Development housing program, as well as a new activity, the Real Service's Handyman program. However, the overall funding of housing assistance programs fell drastically from \$1,375,000 in Fiscal Year 1980 to a current level of \$880,500. Thus, the housing assistance aspect of community development suffered the most in South Bend.⁵⁵

The neighborhood code enforcement component essentially retained its Fiscal Year 1980 funding level.⁵⁶ The general street improvements and city development components remained funded at essentially the same level as well.⁵⁷ Many projects initially undertaken in the 1979 three-year plan and the 1980 plan were nearing completion stage in 1982, thus funding remained available for these projects in Fiscal Year 1982. Funding for public services decreased from \$145,000 in Fiscal Year 1980 to \$94,053 in Fiscal Year 1982.⁵⁸ In 1980, the public services component funded legal services, day care, and Head Start programs within the NSA areas. In 1980, overall funding for legal services amounted to \$45,000.⁵⁹ By 1982, the funding allocation had been reduced to 12,500.⁶⁰ Similarly, funding for day care services within the NSA's was reduced from \$50,000 in 1980⁶¹ to \$12,500 in

53. *Id.* at 1.

54. Interview with Paul Falduto of the South Bend Community Development Division (Oct. 1982). [hereinafter cited as Falduto Interview].

55. PROPOSED STATEMENT, *supra* note 51.

56. *Id.*

57. *Id.*

58. *Id.* at 5.

59. APPLICATION FOR 1980, *supra* note 46, at 58.

60. PROPOSED STATEMENT, *supra* note 51, at 5.

61. APPLICATION FOR 1980, *supra* note 46 at 58.

1982.⁶² Head Start was not supported by any CDBG funds in 1982. The 1982 CDBG funds instead supported a women's crisis shelter, sex offense staff, and an older adult crime victim program.⁶³

In 1979, the City of South Bend borrowed \$1.5 million under a Section 108 program which allows cities to receive funds borrowed against future CDBG entitlements. South Bend had budgeted \$1,544,054 of 1982 CDBG funds for repayment of that loan.⁶⁴ The impending closing of Robertson's Department Store in the downtown mall presented a crisis for community development. Robertson's had been the kingpin of downtown business and its closure threatened the entire development strategy for the central business district. After several private financing plans had been attempted and failed, the Community Development Division provided \$500,000 from the Section 108 repayment to prevent Robertson's closing.⁶⁵ The City must somehow generate these funds from the 1983 entitlements and undoubtedly the delay in repayment will substantially increase the interest due on the loan.⁶⁶

Community development programs for 1982 in South Bend remained funded at essentially the same levels as in 1980 as major development projects such as Monroe-Sample Redevelopment, East Bank Development, and Century Mall Development neared completion. The housing assistance programs bore the brunt of budget reductions in South Bend as community-wide programs were substantially reduced. The City was able to respond to the Robertson's crisis with CDBG funds but the impact on program funding levels will not be determinable until 1983.

URBAN DEVELOPMENT ACTION GRANT PROGRAM

Housing and Community Development Act of 1977

President Carter implemented the Urban Development Action Grant (UDAG) as the cornerstone of his urban policy initiatives. Established under the Housing and Community Development Act of 1977,⁶⁷ the UDAG program provided assistance to severely distressed cities and urban counties to alleviate physical and economic deterioration. The program takes advantage of opportunities to attract private investment into severely distressed communities and to encourage innovation in joint private-public development. To qualify for assistance, communities must meet certain minimum standards of physical and economic distress and must document evidence of private sector

62. PROPOSED STATEMENT, *supra* note 51, at 5.

63. *Id.*

64. *Id.*

65. Falduto Interview, *supra* note 54.

66. *Id.*

67. Housing and Community Development Act of 1977, Pub. L. No. 95-128, 91 Stat. 111 (1977) (codified in part at 42 U.S.C. § 5301 *et. seq.* (1976 & Supp. IV 1980)).

financial participation in the proposed project.⁶⁸ HUD awards UDAG funds on a competitive basis application procedure.⁶⁹

Three types of communities qualify for UDAG assistance: distressed large communities, distressed small cities, and nondistressed communities containing pockets of poverty.⁷⁰ South Bend qualifies as a distressed large community which includes cities with populations of 50,000 or more, central cities of Standard Metropolitan Statistical Areas and urban counties meeting economic and physical distress standards. In order to qualify as a distressed community, cities must meet three of six minimum standards of physical and economic distress. These standards are age of housing (33% of the city's housing constructed prior to 1940); unemployment (5.95% or greater); poverty (11.07% or more of the city's population at or below the poverty level); job lag/decline (7.08% or less rate of growth); per capita income (1.762% or less net increase); population lag/decline (16.66% or less rate of growth).⁷¹

UDAG applications are submitted and funds are awarded quarterly. The comparative degree of distress among competing communities measured by the age of housing, poverty, and population decline standards of physical and economic distress serves as the primary criterion used to select projects for funding. The nature and extent of private sector financial participation in the project and the feasibility of the project's stated impact on the physical and economic deterioration of the community are additional factors used in the selection process. Most of the activities eligible for funding under the CDBG program are eligible under the UDAG program; however, the UDAG program is project specific and does not fund planning and management. UDAG funds supplement CDBG funds in a manner designed to leverage⁷² private financial support for projects that otherwise would not be undertaken.

The Omnibus Budget Reconciliation Act of 1981

The Reagan Administration originally proposed to eliminate the UDAG program. Pressure brought by the United States Conference of Mayors, however, forced the Administration to reconsider.⁷³ The President then proposed to consolidate the UDAG program with the CDBG program and eliminate the federal-local focus of the UDAG

68. Urban Development Action Grants, 45 Fed. Reg. 11, 447 (1980).

69. *Id.*

70. Housing and Community Development Amendments of 1979, Pub. L. No. 96-153, 93 Stat. 1101 (1979) (codified at 42 U.S.C. §§ 5301-5304 (Supp. IV 1980)).

71. Urban Development Action Grants, *supra* note 68.

72. The leverage method requires that private financial commitments to a project reach a certain percentage level before any assistance to the project in the form of a UDAG is given and requires assurances that UDAG funds are essential to the completion of the project.

73. Interview with Community Development Planning Officials. (Aug. 1982).

but reconsidered at the urging of the National League of Cities.⁷⁴ The UDAG program remained intact under the 1981 amendments, but with substantially reduced appropriations.⁷⁵

Initially the UDAG program received funding of \$400 million for each fiscal year up to 1980.⁷⁶ Projects in distressed small cities could receive no less than twenty-five percent of these funds. The amendments of 1979 increased the authorization level to \$675 million for Fiscal Year 1980 and required that no more than twenty percent be awarded to nondistressed communities containing pockets of poverty.⁷⁷ In Fiscal Year 1982, UDAG funding dropped to \$440 million, a \$235 million reduction.⁷⁸ HUD gives primary consideration to those projects with a high percentage of private leverage for investment.

South Bend did not receive any UDAG funds for Fiscal Year 1980.⁷⁹ Recently, however, South Bend was awarded a \$9.9 million UDAG to finance construction of an ethanol plant. Development officials are currently working out the details of the project.⁸⁰

CONCLUSION

Indiana

Indiana appears to have adapted well to the transfer of block grant authority. Since the CDBG Small Cities program was only recently transferred to the State, the impact of the transfer is difficult to assess at this time. State officials are not concerned about the state's ability to administer the programs but rather how the state is to fund them.⁸¹ Indiana did not plan for the federal budget cuts and is not fiscally in a position to compensate for the reductions with state funds. Unemployment is high and the state is facing one of the worst deficits in a long time.⁸²

Though politically unpopular, state tax increases might ease the impact of the reductions. Since Indiana has an extremely low tax rate in comparison to other states,⁸³ tax increases present a feasible alternative. Of course, the tax increases would have to be substantial to compensate for large deficits.⁸⁴

74. *Entitlement UDAG Program Unwieldy, League of Cities Advises Pierce*, 8 Hous. & Dev. Rep. (BNA) 774 (Feb. 16, 1981).

75. UNITED STATE CONFERENCE OF MAYORS, *THE FEDERAL BUDGET AND THE CITIES* 18 (1982).

76. BOYD, C.R.S. REP. NO. 81-70 Gov, *URBAN DEVELOPMENT ACTION GRANTS: AN OVERVIEW* 5 (1981).

77. *Id.*

78. UNITED STATES CONFERENCE OF MAYORS, *supra* note 75, at 15.

79. Because the UDAG program is direct federal-local assistance, the state has no participation in the process unless it chooses to provide funds on its own. Therefore, the analysis of budget reductions will focus on the City of South Bend.

80. Falduto Interview, *supra* note 54.

81. Stanfield, *supra* note 41, at 616-620.

82. *Id.*

83. *Id.* at 620.

84. *Id.*

South Bend

South Bend has not fared badly from the reductions in CDBG funds in 1982, primarily because it has a high degree of return on program income. The city established a reserve fund with money received in previous entitlement years. This reserve now provides funding for completion of the various projects undertaken in previous years.⁸⁵ A loan against future entitlements provided the city with a reserve of funds upon which it can draw as the budget reductions take effect.⁸⁶ City officials also point to savings as a result of the reduction in administrative requirements under the 1981 amendments.⁸⁷ Finally, revision of the fiscal year calendar to run from January to December will result in two nine month years in which the city will receive the full twelve month allotments.⁸⁸

Of the CDBG programs in South Bend, the housing assistance programs bore the brunt of the reductions. South Bend conducted many of these programs through subgrantees such as Southold Finance Corporation and Neighborhood Housing Services. These agencies are now forced to seek funding from other sources in order to continue providing the housing assistance programs. According to city officials, the agencies have been fairly successful in developing relationships with area banks and private agencies.⁸⁹

South Bend officials express three major concerns in the area of community development as a result of the 1981 amendments.⁹⁰ The first concern involves the reduction in funding for public services. These community development officials are attempting at this time to develop a more rational method to allocate public services funds. In previous years, certain programs were consistently funded, but as CDBG funds decrease and other funding sources disappear more public service agencies will apply for a share of the CDBG funds. The Development Division must devise rational criteria by which to judge applicants and focus on the amount of private leverage available to these agencies.

The second concern involves the community's ability to respond when emergency situations such as the Robertson's crisis arise. These situations are not budgeted, and yet in many instances may have more of an impact on community development strategy than the budgeted programs. South Bend was able to respond to the crisis only because it had reserve funds. But as these reserves are used to offset budget reductions, as was the case in South Bend for Fiscal Year 1982, the community's ability to respond to such crises diminish.

85. Falduto Interview, *supra* note 54.

86. *Id.*

87. *Id.*

88. *Id.*

89. *Id.*

90. *Id.*

The development officials' third concern involves the turn-over to the State of the CDBG Small Cities program. They fear that the northern areas of the State will not receive fair and equal treatment due to the composition of the Indiana legislature. Other than representation from Indianapolis, Indiana has a primarily rural, Republican Legislature. The real concern is that the Small Cities program will be turned into what is essentially a loan fund for businesses undertaking development activities. Priority will be given to economic development projects, it is feared, because they are bigger and splashier and thus more politically popular. As a result the individual assistance programs and private residence programs may disappear. This concern takes on added validity now that HUD will no longer consider whether the projects are serving low to moderate income people. The actual result remains to be seen as the State has not begun to administer the program.

Development officials are concentrating on efforts to require more private financial leverage on projects, modeled after the UDAG, and to require greater competition and thus greater program efficiency among the CDBG sub-grantees to alleviate the impact of budget reductions. Officials feel the greatest impact of the reductions will come in 1983 and 1984 and are searching for methods by which to lessen that impact in future years.⁹¹

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91. *Id.*

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