450

Community and Regional Development

Budget function 450 includes programs that support the development of physical and financial infrastructure intended to promote viable community economies, including activities of the Department of Commerce and the Department of Housing and Urban Development. This function also includes spending to help communities and families recover from natural disasters and spending for the rural development activities of the Department of Agriculture, the Bureau of Indian Affairs, and other agencies. CBO estimates that in 2000, discretionary outlays for function 450 will be $11.4 billion. Over the past decade, spending for community and regional development has increased in most years.

Federal Spending, Fiscal Years 1990-2000 (In billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimate 2000
Budget Authority (Discretionary)	7.3	5.8	11.3	9.6	15.3	12.0	11.6	13.0	10.3	11.0	11.4
Outlays											
Discretionary	7.3	6.1	6.4	8.4	10.8	10.1	10.4	10.7	10.1	11.9	11.4
Mandatory	1.3	0.7	0.5	0.8	-0.2	0.6	0.4	0.4	-0.4	0	-0.7
Total	8.5	6.8	6.8	9.2	10.6	10.7	10.7	11.1	9.8	11.9	10.7
Memorandum:											
Annual Percentage Change in Discretionary Outlays		-16.1	4.0	32.0	29.0	-6.3	2.2	3.1	-5.3	17.4	-4.1

450-01 Convert the Rural Community Advancement Program to State Revolving Loan Funds

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	0	0
2002	0	0
2003	0	0
2004	0	0
2005	0	0
2001-2005	0	0
2001-2010	3,595	1,683
Relative to WIDI		
2001	0	0
2002	0	0
2003	0	0
2004	0	0
2005	0	0
2001-2005	0	0
2001-2010	4,111	1,893

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

270-05 and 300-03

The Department of Agriculture's Rural Community Advancement Program (RCAP) assists rural communities by providing loans, loan guarantees, and grants for rural water and waste disposal projects, community facilities, economic development, and fire protection. Funds are generally allocated among the states on the basis of their rural populations and the number of rural families with income below the poverty threshold. Within each state's allocation, the department awards funds competitively to eligible applicants, including state and local agencies, nonprofit organizations, and (in the case of loan guarantees for business and industry) for-profit firms.

The terms of a particular recipient's assistance depend on the purpose of the aid and, in some cases, the economic condition of the recipient's area. For example, aid for water and waste-disposal projects can take the form of loans with interest rates ranging from 4.5 percent to market rates, depending on the area's median household income; areas that are particularly needy may receive grants or a mix of grants and loans.

For 2000, the Congress appropriated $719 million for RCAP's grants and the budgetary cost of its loans and loan guarantees, which is defined under credit reform as the present value of the interest rate subsidies and expected defaults. The Congress could reduce future spending by capitalizing state revolving loan funds (SRLFs) for rural development and then ending federal RCAP assistance. The amount of federal savings would depend on the level and timing of the contribution to capitalize the SRLFs. Under one illustrative option, the federal government would provide steady funding of $719 million annually for five more years to capitalize the funds, then cut off assistance in 2005. The option would yield savings of $1.7 billion from 2006 to 2010. That level of capitalization alone would not support the volume of loans and grants now provided annually by RCAP. Accordingly, the Congress could choose to allow the SRLFs to use the capitalization funds as collateral with which to leverage additional capital from the private sector, as has been allowed with the SRLFs established under the Clean Water Act and Safe Drinking Water Act.

The main argument for replacing RCAP with a system of SRLFs is that the federal government should not bear continuing responsibility for local development; rather, programs that benefit localities, whether urban or rural, should be funded at the state or local level. On the basis of that argument, a few more years of federal funding to capitalize SRLFs would provide a reasonable transition to the desired policy.

One argument against converting RCAP is that without annual infusions of new federal money, states will feel a need to stretch their rural development funds by reducing the number of grants and interest rate subsidies, making it harder for needier communities to find affordable assistance. In addition, precedent suggests that the estimated federal savings may not materialize: the Congress continues to appropriate additional grants to the state funds for wastewater treatment systems, long past the point at which those funds were originally designed to be independent of federal support.

450-02 Eliminate the Appalachian Regional Commission

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	66	7
2002	66	20
2003	66	40
2004	66	51
2005	66	59
2001-2005	330	177
2001-2010	660	507
Relative to WIDI		
2001	67	7
2002	68	20
2003	69	41
2004	71	53
2005	72	62
2001-2005	347	183
2001-2010	725	546

SPENDING CATEGORY:

Discretionary

The federal government provides annual funding to the Appalachian Regional Commission (ARC) for activities that promote economic growth in the Appalachian counties of 13 states. For 2000, the Congress appropriated $66 million for ARC. The states are responsible for filing development plans and recommending specific projects for federal funding. The commission distributes the funds competitively according to such factors as the area's growth potential, per capita income, and unemployment rate; the financial resources of the state and locality; the project's prospective long-term effectiveness; and the degree of private-sector involvement.

ARC supports a variety of programs, including the Community Development Program, mainly to create jobs; the Human Development Program, to improve rural education and health; and the Local Development District Programs, to provide planning and technical assistance to multicounty organizations. (In 1998, the Congress transferred the responsibility for the Appalachian Development Highway System, previously another main ARC program, to the general Transportation Trust Fund.) Federal funds also support 50 percent of the salaries and expenses of ARC staff. Discontinuing the programs funded through ARC would reduce federal outlays by $7 million in 2001 and by $507 million over the 2001-2010 period.

The debate over eliminating ARC focuses on two main points. First, ARC's critics argue that the responsibility for supporting local or regional development basically lies with the state and local governments whose citizens will benefit from the development, not with the federal government. ARC's supporters believe that the federal government has a legitimate role to play in redistributing funds among states to support development in the neediest areas and that reducing federal funding would reduce local progress in job creation, education, and health care. Second, the agency's critics note that all parts of the country have needy areas and argue that those areas in Appalachia have no special claim to federal dollars. According to such critics, needy Appalachian areas should, like other areas, get federal development aid through national programs, such as those of the Economic Development Administration. ARC's defenders respond that Appalachia's size, physical isolation, and severe poverty have created a unique situation requiring special attention.

450-03 Drop Wealthier Communities from the Community Development Block Grant Program

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	593	12
2002	593	202
2003	593	451
2004	593	534
2005	593	563
2001-2005	2,965	1,762
2001-2010	5,930	4,721
Relative to WIDI		
2001	605	12
2002	615	206
2003	626	463
2004	636	556
2005	647	594
2001-2005	3,129	1,831
2001-2010	6,532	5,099

SPENDING CATEGORY:

Discretionary

The Community Development Block Grant (CDBG) program provides annual grants, by formula, to metropolitan cities and urban counties through what is referred to as its entitlement component. The program also allocates funds, by formula, to each state. Those funds are distributed among the states' smaller and more rural communities, called nonentitlement areas, typically through a competitive process.

In general, CDBG funds must be used to aid low- and moderate-income households, eliminate slums and blight, or meet emergency needs. Specific eligible uses include housing rehabilitation, infrastructure improvement, and economic development. Funds from the entitlement component may also be used to repay bonds that are issued by local governments (for acquiring public property, for example) and guaranteed by the federal government under the Section 108 program. For 2000, the CDBG program received a regular appropriation of $4.8 billion, including $3.0 billion for entitlement communities.

Under current law, all urban counties, metropolitan cities, and other cities of 50,000 or more are eligible for the CDBG entitlement program. The formula for allocating entitlement funds includes the following factors: population, the number of residents with income below the poverty level, the number of housing units with more than one person per room, the number of housing units built before 1940, and the extent to which an area's population growth since 1960 is less than the average for all metropolitan cities. The formula neither requires a threshold percentage of residents living in poverty nor excludes communities with high average income.

Federal spending for the program could be reduced by focusing entitlement grants on more needy jurisdictions and lowering funding accordingly. Several alternative changes to the current formula could yield similar results; one simple approach, however, would be to exclude communities whose per capita income exceeds the national average by more than a certain percentage. Data from the Department of Housing and Urban Development on the 1993 grants to entitlement cities (but not counties) suggest that restricting the grants to communities whose per capita income is less than 112 percent of the national average, for example, would save 26 percent of the entitlement funds, in part by cutting the large grants to New York City and Los Angeles. To illustrate the general idea, the Congressional Budget Office has assumed a somewhat smaller cut of 20 percent of entitlement funding, which would save an estimated $12 million in 2001 and $4.7 billion from 2001 to 2010.

Proponents of that change argue that if the CDBG program can be justified at all—some argue that using federal funds for local development is generally inappropriate—its primary rationale is redistribution and that redistributing money to less needy communities serves no pressing interest. Opponents argue that such a change would reduce efforts to aid low- and moderate-income households in poverty pockets within those communities because local governments would not sufficiently redirect their own funds to completely offset the lost grants.

450-04 Eliminate the Neighborhood Reinvestment Corporation

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	75	75
2002	75	75
2003	75	75
2004	75	75
2005	75	75
2001-2005	375	375
2001-2010	750	750
Relative to WIDI		
2001	76	76
2002	77	77
2003	79	79
2004	80	80
2005	82	82
2001-2005	394	394
2001-2010	823	823

SPENDING CATEGORY:

Discretionary

The Neighborhood Reinvestment Corporation (NRC) is a public, nonprofit organization charged with revitalizing distressed neighborhoods. The NRC oversees a network of locally initiated and operated groups called NeighborWorks® organizations, or NWOs, which engage in a variety of housing, neighborhood revitalization, and community-building activities. The corporation provides technical and financial assistance to begin new NWOs; it also monitors and assists current network members. As of 1998, the NeighborWorks® network had 181 members operating in 825 communities nationwide.

For 2000, the NRC's appropriation is $75 million. With those funds, plus a few million dollars from fees and other sources, the corporation provides grants, conducts training programs and educational forums, and produces publications in support of member NWOs. The bulk of the grant money goes to NWOs, which use the funds to cover operating costs; conduct projects; purchase, construct, and rehabilitate properties; and capitalize their revolving loan funds. NWO revolving loan funds make home ownership and home improvement loans to individuals or loans to owners of mixed-use properties who provide long-term rental housing for low- and moderate-income households. In addition, the NRC awards grants to Neighborhood Housing Services of America to provide a secondary market for the loans from NWOs. Eliminating the NRC would save $750 million over 10 years.

One argument for eliminating the NRC is that the federal government should not fund programs whose benefits are local rather than national. A second argument is that the NeighborWorks® approach duplicates the efforts of programs from other federal agencies (particularly the Department of Housing and Urban Development, or HUD) that also rehabilitate low-income housing and promote home ownership and community development. Third, critics of the corporation argue that even within the NeighborWorks® approach, the NRC is a redundant funding channel. In 1997, NRC grants accounted for about one-quarter of the NWOs' governmental funding and roughly 6 percent of their total funding. Larger shares came from private lenders, foundations, corporations, and HUD.

The NRC's defenders argue that the large number of federal programs to assist local development is evidence of widespread support for a federal role—particularly in areas where state and local governments may lack adequate resources of their own. They further argue that NWOs focus on whole neighborhoods rather than individual housing properties, and with their nonhousing activities—such as community organization building, neighborhood cleanup and beautification, and leadership development—provide economic and social benefits that other federal programs do not. Finally, defenders say that the NRC is a valuable part of the approach because of its flexibility in making grants, which allows it to fund valuable NWO efforts that do not fit within the narrow criteria of larger federal grantors, and the services it provides to the NWOs, such as training, program evaluation, and technical assistance.

450-05 Drop Flood Insurance for Certain Repeatedly Flooded Properties

	Savings (Millions of dollars) Budget Authority	Outlays
2001	0	58
2002	0	62
2003	0	67
2004	0	72
2005	0	77
2001-2005	0	336
2001-2010	0	822

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

450-06

Data from the National Flood Insurance Program (NFIP) show that a relatively small number of properties subject to repeated flooding account for a large share of the losses incurred by the program. The Federal Emergency Management Agency (FEMA), which administers the NFIP, has focused its attention on properties that have incurred two or more losses of at least $1,000 each in any 10-year period since 1978 (the earliest year for which data are available). The more than 87,000 properties fitting that definition account for about one-third of all claims, by both number and dollar value, since 1978. Many of those properties no longer have flood insurance: in some cases, the property has been destroyed or moved; in other cases, the owner dropped the policy—for example, after FEMA limited coverage under the NFIP for basement losses in 1983. The NFIP currently insures roughly 43,000 repeatedly flooded properties, representing about 1 percent of all policies in force but a much larger share of annual flood losses.

The issue of repeatedly flooded properties raises concern in part because they generally are covered at premium rates that do not adequately reflect their risk of flood losses. FEMA data show that 95 percent of such properties were built before the development of the Flood Insurance Rate Map (FIRM) for their respective communities—which is not surprising, given the flood mitigation requirements imposed on post-FIRM construction. Thus, almost all repeatedly flooded properties are covered under the pre-FIRM premium rates that the government explicitly subsidizes. (See the related discussion for option 450-06.) In addition, although some properties may incur losses twice in 10 years because of a bad "draw" of storms or other random events, others have flooded four, five, or even 10 or 20 times since 1978, demonstrating that the gap between the pre-FIRM rates and their true actuarial risk of flood loss is particularly large.

One way to reduce federal costs for the flood insurance program would be to deny coverage after the fourth loss of at least $1,000 in any 20-year period. FEMA data indicate that the option would immediately affect about 8,800 properties, and the Congressional Budget Office estimates that it would reduce federal outlays by $58 million in 2001 and $822 million over the 2001-2010 period. The main argument for the option is that neither taxpayers nor other policyholders should be required to provide an unlimited subsidy for properties known to be at high risk for frequent flood damage. The loss or threat of losing NFIP protection would encourage owners of such properties to take appropriate mitigation measures, such as elevating their structures or rebuilding elsewhere.

Opponents of dropping the flood insurance argue that it would be unfair to the property owners to suddenly withdraw their protection from flood risk—especially owners who have occupied their properties since before the local FIRM was developed and cannot readily afford relocation or other costly mitigation measures. Some opponents might prefer a more moderate change from current policy, such as adding a repetitive-loss surcharge to insurance premiums or denying coverage only to policyholders who reject offers of mitigation assistance.

450-06 Reduce the Flood Insurance Subsidy on Pre-FIRM Structures

	Net Receipts (Millions of dollars)
2001	25
2002	81
2003	113
2004	120
2005	137
2001-2005	466
2001-2010	1,185

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

450-05

The National Flood Insurance Program (NFIP) charges two different sets of premiums: one for "pre-FIRM" buildings constructed before 1975 or before the completion of a participating community's Flood Insurance Rate Map (FIRM), and another for post-FIRM buildings. Post-FIRM premiums are intended to be actuarially sound —that is, to cover the costs of all insured losses over the long term—and are based on buildings' elevations relative to the water level expected during a flood that is predicted to occur less than once every 100 years. In contrast, pre-FIRM rates are heavily subsidized, on average, and do not take elevation into account. Currently, about one-sixth of all flood insurance coverage is provided at pre-FIRM rates.

The Federal Emergency Management Agency (FEMA), which administers the flood insurance program, estimates that 31 percent of current policyholders are paying pre-FIRM rates. Those rates are available only for the first $35,000 of coverage for a single-family or a two- to four-family dwelling and for the first $100,000 of coverage for a larger residential, nonresidential, or small business building. Various levels of additional coverage are available at actuarially neutral rates. The program also offers insurance for buildings' contents; again, policyholders in pre-FIRM buildings pay lower rates for a first tier of coverage. The Congressional Budget Office estimates that on average, the first-tier prices represent 38 percent of the coverages' actuarial value, implying a subsidy rate of 62 percent. The size of the subsidy for any particular building depends heavily on its elevation. For buildings that lie above the 100-year-flood level, post-FIRM premiums are actually lower than the "subsidized" pre-FIRM rates. Owners of such properties can reduce their insurance costs by getting the elevation certified, and many have done so.

Reducing the average subsidy from 62 percent to 50 percent—implying a premium increase of about 30 percent in the subsidized tier—would yield net new receipts of $25 million in 2001 and $1.2 billion over the 2001-2010 period. Those estimates take into account the likelihood that some current policyholders would drop their coverage. Flood insurance is mandatory only for properties in special flood hazard areas that carry mortgages from federally insured lenders, and compliance with the requirement is far from complete. Accordingly, CBO expects that the proposal would somewhat reduce the participation of both voluntary and mandatory purchasers.

Advocates of the proposal argue that the subsidy has outlived its original justification as a temporary measure to encourage participation among property owners who were not previously aware of the magnitude of the flood risks they faced. Raising premiums closer to actuarial levels, such advocates maintain, would make policyholders pay more of their fair share for insurance protection and would give them stronger incentives to relocate or take preventive measures.

Supporters of the current subsidy contend that a 30 percent increase in premiums would be an unfair burden to owners of pre-FIRM properties, which were built before FEMA documented the extent of the flood hazards, and that the increase would be particularly unjust for those policyholders who are already paying a negative "subsidy" (because they are unaware that their properties lie above the 100-year-flood elevation). Subsidy supporters further argue that reduced rates of participation in the program would lead to increased spending on disaster grants and loans and thereby erode some of the savings projected for the option. Finally, they question the accuracy of the maps FEMA uses to estimate the average long-run subsidy, noting that for most pre-FIRM properties except a relatively few structures that repeatedly flood, premiums now roughly equal the average losses incurred to date.

450-07 Eliminate the Community Development Financial Institutions Fund

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	80	15
2002	94	41
2003	94	71
2004	94	88
2005	94	93
2001-2005	456	308
2001-2010	926	778
Relative to WIDI		
2001	81	15
2002	98	42
2003	99	73
2004	101	92
2005	102	99
2001-2005	481	321
2001-2010	1,022	847

SPENDING CATEGORY:

Discretionary

The Congress created the Community Development Financial Institutions (CDFI) fund in 1994 to expand the availability of credit, investment capital, and financial services in distressed communities. The fund provides equity investments, grants, loans, and technical assistance to CDFIs, which include community development banks, credit unions, loan funds, venture capital funds, and microenterprise funds. In turn, the CDFIs provide a range of financial services—such as mortgage financing for first-time home buyers, loans and investments for new or expanding small businesses, and credit counseling—in market niches underserved by traditional institutions. The CDFI fund also provides incentive grants to traditional banks and thrifts to invest in CDFIs and to increase loans and services to distressed communities.

For 2000, the Congress appropriated $95 million for the CDFI fund. Eliminating the fund would save $778 million over 10 years, taking into account the small amount of spending that would still be required by another agency (perhaps the Small Business Administration) for oversight of the fund's existing loan portfolio.

Opponents criticize the fund on several grounds. First, as with many of the options in this section, some critics argue that local development should be funded at the state or local level, not by the federal government, since its benefits are not national in scope. Second, opponents see the fund as redundant, given that many other federal programs support home ownership and local economic development, including the Empowerment Zones/Enterprise Communities Program, housing loan programs of the Rural Housing Service, Community Development Block Grants, the Neighborhood Reinvestment Corporation, and the Economic Development Administration, among others. Appropriations for those five programs totaled $6 billion in 1999. Third, some critics argue that assistance to CDFIs is likely to be inefficient, encouraging them to make loans that would not pass market tests for creditworthiness. Fourth, opponents say that the fund has been poorly managed: an oversight report from the House Banking Committee found that the fund had not followed accepted federal procedures in making its first round of grants in 1996, had not accurately documented the factors used in selecting applicants, and had paid excessive rates to outside contractors hand-picked by CDFI officials. The fund's director and deputy director resigned in August 1997.

Supporters of the fund argue that the federal government has a legitimate role in assisting needy communities and that the fund provides an efficient mechanism for leveraging private-sector investment with a relatively small federal contribution. They also say that management has improved under the fund's new director, noting that its audit for fiscal year 1998 showed no material weaknesses and that the House Banking Committee reported a bill in 1999 to reauthorize the fund for four years while providing some additional management controls.