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**BLOCK GRANTS AND FEDERAL BUCKS:
FEDERAL COMMUNITY DEVELOPMENT AID IN ILLINOIS CITIES**

Heywood T. Sanders

Passage of the 1974 Housing and Community Development Act presaged a minor revolution in intergovernmental relations for the cities of Illinois. Under the new Community Development Block Grant program, Title I of the act many Illinois communities received their first substantial federal assistance for urban development and revitalization while other cities saw massive increases in their federal aid receipts. The 1974 housing and community development legislation also heralded a new era of reduced federal red tape and involvement with an increased scope of local choice and decision making. The Community Development Block Grant program is now in its fifth year, following one major legislative revision in 1977, and communities have accumulated a large stock of benefits and experience under this new federal arrangement. This study, based on an analysis of some fifteen medium and large size cities in Illinois, documents the development and impact of the community development program, and the response of Illinois cities to this effort.

The beginnings of a block grant approach to community development can be traced to President Richard Nixon's efforts to replace 129 separate categorical grant programs with six programs of "special revenue-sharing." The original proposal for urban development would have combined funding for urban renewal, Model Cities, housing rehabilitation, and neighborhood facilities into a single annual grant with only limited restrictions and federal review.

The special revenue-sharing arrangement sought to reach three general goals. First, the program would eliminate so-called grantsmanship at the city level, whereby some communities receive high levels of federal aid simply because of their ability to file applications and please federal bureaucrats. Urban development assistance would be linked to local need defined in a consistent and objective manner. Federal aid would also be provided in regular, annual installments so that cities could be certain about funding local programs. Second, the new program would be characterized by reduced federal review and oversight. The Nixon administration proposal eliminated all applications and merely subjected spending to post-audit review. Finally, local choice was to be maximized with all decisions on spending priorities and development strategies made by city hall. The general goals of the Nixon administration were shared by many national and local political leaders. The

actual mechanisms for accomplishing them led to a great deal of disagreement.

WHY AND WHEREFORES OF THE 1974 ACT

The first goal, a guarantee of federal financial assistance, involved the dual questions of who was to receive regular, annual aid and how much aid each jurisdiction would be granted. The 1974 act eventually created two parallel, yet distinct programs: an entitlement program and a discretionary grant program. Under the entitlement program, regular assistance is provided for the central cities in metropolitan areas with populations of 50,000 or more. Federal entitlement aid is provided to "urban counties" where the county population exceeded 200,000 and the county government is legally authorized to perform community development functions in its unincorporated areas. New units of local government may enter the program when new metropolitan areas are declared or when their population exceeds 50,000.

Cities which do not meet the population and metropolitan requirements for the entitlement program are able to compete for funds under the companion, discretionary program. While the program regulations and application requirements are the same for both programs, localities in the discretionary program are required to compete for federal aid on an annual basis without the assurance of support provided for entitlement jurisdictions.

The issue of funding was perhaps the most difficult for the Congress and the Nixon administration to deal with. Some legislators favored an immediate shift to funding based on an objective needs formula. Others endorsed a "grandfather clause" called hold-harmless which based assistance on a community's previous level of federal aid.¹ Both groups differed on the components and measurements of funds distribution. The final law called for a complex merging of hold-harmless funding with a formula-determined amount based on city population size, number of poor persons, and number of overcrowded housing units.² Where the previous level of funding exceeded the formula amount, localities received three years of funding at the earlier levels. For the next three years their assistance was to be reduced by thirds so

¹ The "hold-harmless" amount is based on a city's average annual funding for fiscal years 1968 through 1972 in the following federal grant programs: urban renewal, neighborhood development program, section 312 rehabilitation loans open space, water and sewer public facilities, neighborhood facilities, and Model Cities.

² In the calculation for funding under the 1974 formula the measures are weighted as follows: population, 25, housing overcrowding 25, poverty, 5.

Heywood T. Sanders is an assistant professor at the Institute of Government and Public Affairs. In spring 1980 he will take a leave of absence to work in the Washington office of HUD.

that by 1980 their federal aid would be based exclusively on the formula. Table 1 illustrates the impact that this "phase down" would have had on the funding for Bloomington, Illinois. From close to \$2.2 million in aid during the early years of the program, Bloomington's funding was programmed to drop to only \$555,000. Where the hold-harmless level was less than the formula amount, cities were to receive increasing levels of aid for the first three years, and full assistance based on the needs formula for the following three years. Thus in Joliet, again as shown in Table 1, with a hold-harmless sum of \$149,000, funding gradually increased from \$295,000 in fiscal 1975 to the full formula level of \$1,069,000 in 1977.

Table 1
ANNUAL COMMUNITY DEVELOPMENT FUNDING —
ESTIMATED AND ACTUAL — ILLINOIS EXAMPLES
(in thousands)

City	1975	1976	1977	1978	1979	1980
Funding Decrease						
Bloomington						
(1974 estimate)	\$2,169	\$2,169	\$2,169	\$1,630	\$1,093	\$ 555
(Actual)	2,169	2,169	2,169	1,665	1,223	866
Funding Increase						
Joliet						
(1974 estimate)	304	720	1,098	1,116	1,116	1,116
(Actual)	295	656	1,069	1,222	1,251	1,528
Stable Funding						
Peoria						
(1974 estimate)	2,115	2,115	2,115	2,047	1,979	1,911
(Actual)	2,115	2,115	2,115	2,145	2,190	2,444

The 1977 Revisions

Despite the general endorsement of formula-based assistance by cities, Congress, and the Nixon and Ford administrations, the gradual elimination of hold-harmless funding threatened a number of communities (particularly in the Northeast and Midwest) with substantial decreases in aid. Their cause was a major focus of congressional debate in 1977, and the result was a major revision in the formula for distributing federal community development dollars. Cities now have their need determined by two different formulas with the dollar amount of aid determined by the larger value. In addition to the 1974 formula

based on population, poverty, and housing overcrowding, an alternative formula was devised which includes indices of housing age, poverty, and population growth lag.³ The general result was a substantial increase in aid to older declining localities, including many in Illinois.

The community development program currently provides for aid on an annual entitlement basis to twenty-five Illinois cities. Four communities have regularly elected not to participate in the program: Berwyn, Cicero, Oak Lawn, and Des Plaines. Two cities entered the program after its inception. Kankakee's participation began in 1976 when that community was declared part of a metropolitan area. Mount Prospect initiated its program in 1978 when its population was judged to have passed the 50,000 level.

The entitlement process also benefits five Illinois urban counties (Cook, DuPage, Lake, Madison, and St. Clair). In many cases these counties "pass through" federal assistance to smaller cities and villages within their boundaries while undertaking only limited projects themselves. Finally, some cities which do not qualify for entitlement aid but which had previously participated in federal programs receive a modest (and declining) level of community development support. Such locales as Carbondale, Danville, and DeKalb receive some entitlement aid, but this will decline to zero by 1980 although these cities remain eligible for assistance under the discretionary program.

Federal vs. Local Control

The early proposals of the Nixon administration called for absolutely no federal review of planned community development activities. While localities would be required to provide a statement of objectives and planned spending, these declarations would not be subject to prior federal review. Congress generally favored a more substantial local plan of action, submitted in a specified application form, and subject to federal review. This issue reflected a continuing concern over the appropriate role of the national government in community development action — whether it should support the activities of local governments in achieving local goals and objectives, or whether national purposes demanded a statement of national objectives and a limitation on local choice.

As enacted, the community development program provides a blend of national insistence and local discretion. While cities must file an annual application, the Department of Housing and Urban Development is required to review and decide on funding within a 75-day period. Applications held beyond 75 days are deemed automatically approved. At the same time the grounds for disapproval are both limited and clearly specified by the legislation. HUD is obliged to approve an application unless local "facts and objectives (are) plainly inconsistent" with available information on community needs, or local activities are "plainly inappropriate to meet the needs and objectives identified by the applicant." HUD is also allowed to review individual program activities for their eligibility under the law and their conformance with national objectives. Concern with local divergences from national goals prompted a major shift in the program regulations in March 1978. While the 1974 act required that local programs provide "maximum feasible priority" to

³ The formula added in 1977 places the greatest emphasis on old housing (weighted 5), followed by poverty (3), and population growth lag (2).

ILLINOIS GOVERNMENT RESEARCH

Institute of Government and Public Affairs
University of Illinois

1201 West Nevada Street, Urbana, Illinois 61801

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Springfield provide examples of the phase down situation. The high levels of aid in both cities continued from 1975 through 1977 with regular reductions until the 1980 formula level is reached. Peoria illustrates a third variant where the level of previous activity and the calculations of the formulas balance out to essentially stable funding from 1975 through 1980.

For the entire state of Illinois, the relative balance of gainers and losers is quite favorable. Six cities which did not receive any funds under the categorical system are now block grant recipients. Another eleven cities now receive more on an annual basis than they had previously, with some dramatic increases. Only two cities (Peoria and East St. Louis) are receiving roughly the same amount of aid as under the categorical grants. Finally, four cities (Bloomington, Rock Island, Rockford, and Springfield) have seen their federal aid dollars decrease. Their apparent loss is, however, something of an accounting artifact, resulting from a late start in the urban renewal program. Even their reduced 1980 funding will represent an increase over their historical level of participation in federal community development efforts.

CONCLUSION

While the community development block grant program must be considered a net financial bonus for Illinois cities, it is not without some negative aspects. The formula system for distributing assistance may reduce a variety of inequities and provide a guarantee of federal aid, but its

effect is to impose a ceiling as well as a floor on federal dollars. The community which is successful in spending its money and operating its programs may be unable to benefit financially from its success, while other communities with less effective programs continue to receive their "entitled" federal dollars. For the urban centers of Illinois, this is a particularly serious weakness. Historically surpassed by eastern urban centers in the contest for federal aid, Illinois communities must now attempt to alleviate long-standing problems of housing and neighborhood deterioration with a relatively fixed and inadequate level of aid. It will be many years before Peoria and Joliet can reach the same level of physical improvement and neighborhood revitalization that New Haven and Boston have already achieved. The block grant system has succeeded in securing the participation of almost all eligible Illinois communities. In a marked departure from the limited employment of categorical grant programs, communities are enlarging the scope of local governmental responsibility to include issues of housing and community revitalization. This increased contact with the federal government is also altering the character and outcomes of local decisions. One jurisdiction (DuPage County) has lost its entitlement funding for 1979 due to limited achievements in rehabilitating and developing housing. Other communities may well find their local needs and desires in conflict with the intent and goals of the national government with the unpleasant probability of losing their recently gained federal largesse.

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Table 2
FEDERAL COMMUNITY DEVELOPMENT AID BY CITY

	Urban renewal aid per capita 1949-1974	Annual average aid per capita 1968-1972	1980 community development aid per capita (1974 formula)	1980 community development aid per capita (1977 formula)	National income rank 1974 (of 907 cities)
New Haven	\$1,318.31	\$131.89	\$22.21	\$39.87	650
Boston	547.23	50.08	21.44	37.80	697
Chicago	71.80	12.82	21.79	36.79	428
Rockford	75.92	17.69	14.90	14.90	296
Peoria	5.51	16.66	17.23	18.33	198
Springfield	84.02	49.19	17.34	23.00	257
Evanston	—	0.76	15.64	25.39	49
Joliet	22.24	1.88	15.80	16.76	306
Aurora	—	0.72	13.92	15.35	281
East St. Louis	186.52	49.89	40.23	53.47	905
Skokie	—	—	7.13	7.13	23
Waukegan	—	4.11	15.31	15.31	218
Decatur	47.81	5.70	16.66	17.06	263
Arlington Hts	—	0.29	7.30	7.30	43
Oak Park	—	—	10.30	30.11	59
Elgin	54.24	—	11.96	15.24	274
Champaign	43.10	6.60	16.40	16.40	402
Rock Island	71.67	49.48	16.43	28.33	255
Mt. Prospect	—	—	7.91	7.91	60
Moline	—	0.09	13.40	20.87	151
Bloomington	190.34	54.24	13.65	20.63	250
Urbana	—	0.82	16.01	16.01	443
Kankakee	—	—	15.90	24.24	338
Normal	—	—	13.26	13.26	732
Rantoul	—	4.89	13.61	13.61	N.A.
Cicero	—	—	11.59	32.52	221
Oak Lawn	—	—	10.65	10.65	91
Des Plaines	—	—	8.76	8.76	90
Berwyn	—	—	9.62	31.62	117

City population figures as of 1970
 — Indicates no federal funds received
 N.A. Indicates data not available

limited to the federal open space program which provided new parks and playspace. While participation in these specialized grant programs gave cities some experience in dealing with the federal government, it did not involve a broad range of community development activities or substantial local intervention in the area of housing

Illinois in the New Era

The massive impact of the 1974 Housing and Community Development Act is indicated by the third column of Table 2. First, the community development program provides federal aid to a far larger number of communities than its predecessor programs. The extension of the *number* of participants is paralleled by an expansion of the *degree* of participation—far more cities are now able to provide broad-based programs in housing and neighborhood preservation and renewal.

The distributional inequities of the categorical grant system have largely been remedied. Under the present funding arrangement, the poorest entitlement community in the state, East St. Louis, receives seven and one-half times more aid on a per capita basis than Skokie, the wealthiest participant. However, the formula system for distributing funds has generated two sources of inequity across cities. By basing entitlement status on central city

designation, some smaller communities such as Rantoul (with a 1970 population of 25,462) and Normal (26,396 population) receive regular aid while larger nonmetropolitan cities (such as Danville and DeKalb) and suburbs (such as Maywood and Harvey) are forced to compete annually for funds in the discretionary program. A second problem was created by the adoption of the dual formula in 1977 which added growth lag and housing age as elements in the allocation of community development dollars. Older, built-up suburbs such as Evanston and Oak Park received a windfall in federal aid. Indeed, Oak Park will rank third across the state by 1980 in per capita community development aid, immediately behind the city of Chicago. The magnitude of this shift is suggested by the fact that Oak Park ranks 59th of 907 cities in terms of per capita income as of 1974 while Chicago ranks 428th.

The funding shifts in the change from a categorical grant system to the block grant approach were not allowed to occur overnight. As noted earlier, major "winners" under the earlier system were to be gradually reduced or phased down in their aid levels, while new participants were to be gradually phased in to their full funding level. The actual workings of this phase in/phase down arrangement are shown in Table 1. Both Joliet and Aurora, for example, are new participants with full funding levels (shown in Table 2) reached by 1977. Bloomington and

programs benefiting low or moderate income persons. HUD now identifies the national concern with the community development needs of the poor as a singular objective. Cities are now required to indicate on their annual submittals the proportion of project funds directed to low and moderate income areas and persons. Where the proportion of benefits to this income group falls below 75 percent, HUD subjects the entire application to a more stringent review of program eligibility and benefit. The increased HUD concern with program benefit has caused at least some anxiety among local officials although there have been almost no cases in Illinois where cities were forced to substantially alter their plans and programs.

The final objective of the Nixon administration's new federalism was an increase in local choice decision-making discretion. To some extent the requirement of an annual application limited total freedom for cities. Local choice is also constrained by the inclusion of a specific list of eligible activities within the final legislation. The broadest scope is allowed for physical development activities, including land acquisition, disposition, and relocation. Substantial freedom is also provided for the construction of new public facilities (where these benefit a specific neighborhood rather than the entire city), and public works, such as streets, sewers, lights, and sidewalks. The program also allows a number of approaches to assist private individuals in rehabilitating housing. The most restricted eligibility involves "soft" public service activities. These are limited to areas where other community development functions are to be performed, where the service is determined to be "necessary and appropriate" and not otherwise available from city government, and where other grant assistance for the service is applied for and denied. The clear intent of the Congress was a concentration on physical improvements. Although a Senate-supported limitation on public services spending (to 20 percent of the annual entitlement) is not included in the final legislation, HUD implicitly accepts such a restriction on total services funding when it reviews local applications.

As with most federal grant programs, local support for a broader and less restrictive set of activities proved to be irresistible. The 1977 revisions to the original provisions allowed for greater freedom in providing housing rehabilitation assistance with eligibility for economic development activities and for projects carried out by nonprofit neighborhood organizations. The tendency to gradually increase the breadth of program eligibility and the scope of local choice is endemic to federal aid efforts as recipients seek to increase their own flexibility in spending. It is likely that this path will continue to be followed as the entire community development block grant program is reconsidered and reviewed in 1980.

THE FLOW OF AID DOLLARS TO ILLINOIS

The experience of Illinois communities demonstrates how the shift from categorical assistance to a block grant approach has affected such issues as equity and need in federal aid. From 1949 until 1974, federal community development efforts were dominated by the urban renewal and neighborhood development programs. Urban renewal required a strong local commitment, both because cities were required to submit applications for each individual project they sought to undertake and because federal aid required a local contribution of either one-third or one-

quarter of the project costs (depending on the size of the city). Many Illinois cities failed to get their fair share of renewal grants. A combination of fear of federal red tape and "strings" and a lack of local leadership and resources often limited local participation in federally aided programs. Table 2, which indicates federal urban renewal aid from 1949 to 1974 on a per capita basis, demonstrates the impact of these local factors on grant receipts. The table includes only entitlement localities, small communities and nonmetropolitan areas are not included.

In comparison with the major practitioners of urban renewal grantsmanship — New Haven, Connecticut, and Boston, Massachusetts — Illinois cities received only a modest level of federal aid. Even the federal aid levels for Chicago and East St. Louis appear modest in comparison with those for Providence, Rhode Island (\$393.75 per capita), Baltimore, Maryland (\$250.08 per capita), Minneapolis (\$280.87), and Detroit (\$128.56). While Illinois communities were generally gaining less federal urban renewal aid than other cities in the Northeast and Midwest, there were also substantial inequities in aid *within* the state. Although the poorest city in Illinois (East St. Louis) received substantial aid, a much wealthier community (Bloomington) garnered even more on a per capita basis. Joliet, with substantial problems of population loss and urban decay, received less than half the aid amounts of such places as Elgin and Champaign.

The relative disadvantage of Illinois communities in gaining federal aid was magnified by a problem of timing. Even those cities that were successful in attracting federal dollars often initiated their renewal activities much later than northeastern cities. Cities such as Boston and New Haven had embarked on vigorous renewal in the mid-1950s. Bloomington did not initiate a large-scale project until 1970, as did Peoria. These late-entrant cities found their federal aid could provide far less since the costs of land and agency operations were much higher and federal requirements more stringent than in earlier periods. Consequently they have been forced to complete their planned programs with aid under block grants.

The first column of Table 2 indicates that the majority of Illinois entitlement cities did not even participate in urban renewal activities. For many suburban localities, such as Arlington Heights and Oak Park, the housing and community development problems did not appear to merit drastic intervention with federal programs. In other cases, such as Waukegan and Urbana, local opposition to federal rules and requirements effectively stymied any local action.

Another "snapshot" of federal assistance is provided by the second column of Table 2 which indicates the average annual funding (hold-harmless level) cities received from seven grant programs between 1968 and 1972. A general image of large inequities in grant receipts is apparent with Bloomington again the biggest aid "winner" in the state. Most cities, however, were able to gain at least some federal assistance during this five-year period. Only Normal, Elgin, Oak Park, Skokie, Kankakee, and Mt. Prospect remained completely outside the federal arena. The average level of aid was, however, quite modest. In addition, local participation was generally specialized, limited to one or two programs of the federal aid inventory. In Champaign, Rantoul, and Joliet the bulk of federal assistance was accounted for by water and sewer projects. In Urbana, Aurora, Arlington Heights, Evanston, Waukegan, and Moline, grantsmanship was



INSTITUTE OF GOVERNMENT
AND PUBLIC AFFAIRS
UNIVERSITY OF ILLINOIS

1201 WEST NEVADA STREET / URBANA, ILLINOIS 61801