Community Development Block Grant (CDBG) Partnership
Challenges and Opportunities at the Local, State, and Federal Level
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Executive Summary

In accordance with Senate Report 115-268 accompanying the Consolidated Appropriations Act, 2019, (P.L. 116-6), HUD has issued this report to identify opportunities and challenges for Federal, State, and local governments to partner with nonprofit organizations to complete community development, revitalization, and rehabilitation projects using the Community Development Block Grant (CDBG) program.

Effective CDBG programs depend on cooperative, problem-solving relationships between CDBG grantees and their subrecipients. These subrecipients assist CDBG grantees to implement and administer programs by undertaking one or more activities such as acquisition, clearance and disposition of property; homeownership assistance; rehabilitation of residential housing; public facilities and improvements; public services, such as job training, health care and substance abuse services, and childcare; and economic development.

CDBG grantees play the roles of partner, catalyst, and facilitator, in addition to service provider. In these new and evolving roles, there are both challenges and opportunities to building partnerships with nonprofit organizations and other potential partners. Some of the challenges faced include:

- The impact of “the Silver Tsunami” on succession planning as a record number of senior nonprofit organization leaders meet retirement age by 2030;
- CDBG funding not keeping pace with inflation, resulting in CDBG grantees receiving smaller grant amounts as the purchasing power of those grant funds is reduced;
- The unique needs of rural jurisdictions and other geographically isolated small towns for more robust capacity and infrastructure upgrades requiring an unprecedented level of regional-based partnership; and
- Differing state laws and enabling legislation that present unique challenges to partnership.

Even with these challenges at the federal, state, and local levels, there are still opportunities to maximize the positive impact of CDBG funding. Some of the opportunities include:

- HUD continuing to encourage partnerships between CDBG grantees and public and private sector entities at the state and local levels. This includes using innovative funding strategies such as Opportunity Zones, New Market Tax Credits, and Section 108 loan guarantees;
- Increased coordination and partnership between federal agencies to solicit feedback and leverage expertise in developing policies and procedures for CDBG;
- Political and community leaders working together to minimize the regulatory and administrative costs and burdens that discourage public and private investment in low- and moderate-income communities; and
- HUD partnering with and educating other federal agencies on how CDBG can be used as a strategic lever to catalyze community and economic development.
Community Development Block Grant (CDBG) Partnership Challenges and Opportunities at the Local, State, and Federal Level

Background

The Senate Report 115-268 accompanying the Consolidated Appropriations Act, 2019 (P.L. 116-6) highlighted the Senate Appropriation Committee’s interest in partnerships between Community Development Block Grant (CDBG) grantees and their subrecipients (project resource providers). Specifically, the Committee directed HUD to provide “clarifying guidance to CDBG recipients about how they can facilitate these partnerships and to issue a report by the end of Federal fiscal year 2019 (FY 2019) that identifies opportunities and challenges for Federal, State, and local governments to partner with nonprofit organizations to complete community development, revitalization, and rehabilitation projects.”

In accordance with this directive, HUD created this report to outline key principles that facilitate partnerships and to identify challenges and opportunities at the local, state, and federal level to making those partnerships effective.

The Community Development Block Grant (CDBG) Program is authorized under Title I of the Housing and Community Development Act of 1974, as amended (HCDA). The program is designed to provide decent housing, suitable living environments, and expand economic opportunities, principally for low- and moderate-income persons. In Federal fiscal year 2019 (FY 2019), HUD was appropriated $3.3 billion in CDBG funding for award to approximately 1,250 local governments, states, and insular areas.

In turn, these grantees may sub-award funding to entities that assist them in implementing and administering CDBG programs. These subrecipients are nonprofit organizations or government entities that undertake one or more activities on behalf of a grantee. The activities selected are those that best meet the needs of local communities, as determined by multi-year Consolidated Plans and Annual Action Plans grantees submit to HUD.

These activities include, but are not limited to, acquisition, clearance and disposition of property; homeownership assistance; rehabilitation of residential buildings; public facilities and improvements; public services, such as job training, health care and substance abuse services, and childcare; and economic development. In FY 2017, nearly 4,000 CDBG activities leveraged an average of $3.86 for every $1.00 of grant funding, amplifying the CDBG program’s return on investment with $2.099 billion in other resources.

1 Under the CDBG program, the annual CDBG appropriation is allocated to entitlement communities and states. Entitlement communities are principal cities of metropolitan statistical areas, other metropolitan cities with populations of at least 50,000, and qualified urban counties with a population of 200,000 or more (excluding the populations of entitlement cities). States distribute CDBG funds to units of general local government not qualified as entitlement communities.
The Impact of CDBG Partnerships

As shown in the chart below, grantees expended approximately 60% of CDBG funding used in FY 2018 on public improvements and housing in communities nationwide. Many of these activities were completed through partnerships between grantees and subrecipients.

Figure 1

Use of CDBG Funds by All Grantees in FY 2018

Source: CDBG National Expenditure Report - All CDBG Disbursements FY 2018

In FY 2018, CDBG grantees and their subrecipient partners achieved positive results for millions of Americans through CDBG-assisted activities. These activities included housing rehabilitation, public facilities, housing, and economic development. Figure 2 below shows key CDBG accomplishments and impact. Among them:

- CDBG grantees provided public facilities improvements, including sewer and water infrastructure for approximately **1.4 million residents**;
- **61,000 households** benefitted from housing rehabilitation and **207,000 persons** were provided with housing information and legal services;
- **18,000 jobs** were created through CDBG-funded economic development activities;
- Public services were provided to **5.1 million persons**, including CDBG-funded food banks serving **2.9 million people**; and
- **108,000 persons** benefited from shelters and transitional housing.
CDBG grantees depend on subrecipients to assist with carrying out activities and delivering needed services in a cost-effective way. These subrecipients provide knowledge of the specific neighborhoods and beneficiaries served by the CDBG program. They also help increase citizen participation by involving the intended beneficiaries in the design and delivery of those services.

Jurisdictions can use CDBG funds for a wide range of projects with community and economic development impact. They implement these projects in partnership with several entities, including local governments, nonprofit organizations, community development financial institutions (CDFI), community-based development organizations (CBDO) and private for-profit entities.

For example, Figure 3 shows a sampling of select CDBG subrecipients who received at least $1.0 million in funding to implement CDBG-eligible activities during FY 2018. Many of these subrecipients are national nonprofit organizations that implement a myriad of CDBG-eligible activities ranging from housing and homeownership assistance to public services benefiting seniors, homeless persons, youth, and programs providing substance abuse treatment.
Partnership Principles

There are three principles embedded in the HCDA that help foster effective CDBG partnerships and coordinated services, reduce duplicative efforts between and among stakeholders, and aid the success of program participants. They are:

(1) **Incorporating local decision making** as part of the process to determine which activities will be provided strategically to enhance community and economic development efforts;

(2) **Engaging stakeholders** through citizen participation efforts that promote increased interagency coordination and program alignment, where possible; and

(3) **Promoting public/private sector partnerships** that leverage innovative development vehicles, like Opportunity Zones, Section 108 funding, and CDBG revolving loan funds, to improve service delivery and cost-effectiveness.

The next section of this report looks more closely at these principles and provides brief case studies and examples demonstrating the principles at work.

**Incorporating Local Decision Making**

Pursuant to 24 CFR 91.15(a)(1), each CDBG grantee must submit a Consolidated Plan to HUD, describing the grantee’s housing and community development needs and its strategy to address identified needs. The Consolidated Plan process allows flexibility to local governments to assess the broad diversity of needs within low- and moderate-income neighborhoods. This flexibility is
a principal tenet of the CDBG program, presenting grantees with new partnership opportunities and chances to deliberate together about community development. For example, grantees can partner directly with local universities or nonprofit organizations to help develop the plan and engage relevant stakeholders, such as other public and private agencies that provide assisted housing, health, social, and fair housing services.

The needs of targeted program beneficiaries and the organizations that serve them are reviewed as an essential part of consolidated planning. HUD provides CDBG grantees with an online planning tool, known as the eCon Plan Suite, to help with this process. The eCon Plan Suite contains census data and mapping resources to help guide community planning and decision-making efforts by grantees. Grantees are also encouraged to use additional data sources to the extent they are available.

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**CDBG Case Study: Planning in the County of Los Angeles, CA**  
A snapshot of a community, its needs, and using the consolidated planning process to develop specific priorities, strategies and actions.

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**BACKGROUND**  
At 2.4 square miles, the City of Bell Gardens is among the densest urban areas in California and the nation, with more than 18,000 persons per square mile and an average household size of 4.6 persons. Due to limited open space for dynamic recreation parks and facilities, the City of Bell Gardens had only two soccer fields to serve a population of more than 45,000 people. More than half its residents are under age 25 and 78% of the residents have low- and moderate-incomes.

**APPROACH**  
The City of Bell Gardens’ Community Development staff facilitated a collaborative effort between residents and several governmental entities to develop the Bell Gardens Sports Center. The Center would fill a critical need to expand recreation opportunities in the area. The project also included a unique, pioneering sponsorship agreement with the Major League Soccer team Chivas USA.

**RESULT**  
An $11 million sports center met the recreation needs by providing state-of-the-art facilities that feature two grass multi-use fields, two baseball fields, and two year-round synthetic turf soccer fields, as well as a full-service restaurant. The project leveraged $1,434,085 in CDBG funds.
Engaging Citizen Participation
Another unique feature of the CDBG program is its citizen participation requirement as set forth in Section 104 of the HCDA and 24 CFR part 91. The grantee is required to hold at least two public hearings annually to obtain citizen views and input on various community development proposals. Consultation requirements are established at 24 CFR 91.100 (local governments) and 24 CFR 91.110 (States).

This high level of stakeholder engagement, where citizen comments and concerns must be taken into consideration, elevates the importance of partnership. Grantees must also consult with other public and private agencies that provide housing, health and social services, child welfare agencies, civil rights organizations, adjacent units of local government and local housing authorities. The case study below is an example of how citizen participation can spur community problem solving through collaboration.

CDBG Case Study: Citizen Participation in the Renaissance Community Co-op in Greensboro, North Carolina
A snapshot of a local community creating new job opportunities and alleviating a significant problem through collaborative efforts and using CDBG funding.

BACKGROUND
In 1998, the local Winn-Dixie store serving Northeast Greensboro neighborhoods closed, leaving the area without a full-service grocery store and creating a food desert. The nearest store was more than two miles away and low-income residents were significantly affected by the lack of stores in the area.

APPROACH
The Renaissance Community Cooperative (RCC), a local foundation, partnered with the City of Greensboro to address the situation once it was fully discussed during a town hall meeting. The City of Greensboro provided a matching grant of $250,000, including CDBG funds and local economic development funds.

RESULT
The Renaissance Community Cooperative (RCC) raised most of the $1.79 million needed to open the store from public and private investment and member equity. In 2016, RCC opened a 10,000 square-foot grocery store, creating new jobs and alleviating food disparity issues in a food desert in Greensboro. The new store is community-owned and controlled by its members, the majority of whom live in the surrounding community.
Promoting Public/Private Sector Partnerships

CDBG funding catalyzes public/private sector partnerships that are beneficial to economic development in many communities. Strategic economic development helps communities build better infrastructure, create more jobs, and raise the standard of living for their residents. To achieve strategic community and economic development efforts, HUD encourages CDBG grantees to leverage resources with both public and private sector partners.

Some economic development-focused activities funded through CDBG include, but are not limited to, loans for businesses and commercial real estate development projects; business incubators; microenterprise activities; installation of infrastructure to support commercial and industrial developments; and skills training programs. Subrecipients have often played important roles in helping local governments implement and design economic development projects, including offering underwriting and loan-fund management.

Community-based development organizations (CBDO) are a potential partner for CDBG grantees in the economic development area. CBDOs are authorized under 24 CFR 570.204 to carry out special activities in connection with neighborhood revitalization, community economic development or energy conservation projects. CDBG grantees have worked closely with these organizations to address local development priorities, but there is still room for further collaboration. Figure 4 below shows the top 10 CDBG grantee expenditures in FY 2018 by subrecipients, CBDOs or entities authorized under Section 105(a)(15) of the HCDA.

Figure 4

<table>
<thead>
<tr>
<th>FY 2018 Expenditures by Grantee (ranked) by Subrecipient, CBDO, or 105(a)(15) entity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Chicago, IL</td>
<td>$29,132,042.43</td>
</tr>
<tr>
<td>Los Angeles, CA</td>
<td>$19,997,390.05</td>
</tr>
<tr>
<td>Philadelphia, PA</td>
<td>$18,348,889.11</td>
</tr>
<tr>
<td>Houston, TX</td>
<td>$12,864,526.89</td>
</tr>
<tr>
<td>Honolulu, HI</td>
<td>$11,064,911.31</td>
</tr>
<tr>
<td>Cleveland, OH</td>
<td>$10,546,377.82</td>
</tr>
<tr>
<td>San Diego, CA</td>
<td>$10,376,845.66</td>
</tr>
<tr>
<td>Baltimore, MD</td>
<td>$8,555,393.81</td>
</tr>
<tr>
<td>State of New Hampshire</td>
<td>$7,379,478.00</td>
</tr>
<tr>
<td>Milwaukee WI</td>
<td>$7,014,426.97</td>
</tr>
</tbody>
</table>


HUD strongly recommends grantees develop public/private partnerships leveraging a mix of federal and local funding tools and instruments for community development. Three important partnership tools highlighted in this report are the Section 108 Loan Program, Opportunity Zones, and New Market Tax Credits.
Section 108 Loan Program. A resource available for use by CDBG grantees to promote public/private partnerships is the Section 108 Loan Program (Section 108). Section 108 offers state and local governments the ability to access low-cost, long-term federally guaranteed financing for housing, economic development, and infrastructure projects. Section 108 guaranteed funding’s flexibility makes it a solid resource to encourage partnerships with private investment partners. Both CDBG Entitlement and State Grantees can apply for Section 108 loans. Loans typically have ranged from $500,000 to $140 million, depending on the scale of the project. In FY 2018, HUD approved $58,600,000 in Section 108 Guaranteed Loan commitments for projects in three categories: Economic Development, Mixed-use and Housing Development Projects, and Public Facilities and Improvements.

Section 108 Case Study: City of Spartanburg, South Carolina and Spartanburg Development Corporation
A snapshot of a community leveraging multiple public and private sector investments to transform housing

BACKGROUND
In 2018, the City of Spartanburg entered into a subrecipient agreement with Northside Development Corporation (NDC) to finance the development of Northside Commons, a new construction, mixed-use project in the City’s Northside neighborhood. The project was designed to supply new housing as well as medical, office and classroom space in a high-poverty area in the City.

PROCESS
The project used New Market Tax Credits (NMTC) where the City provided Section 108 guaranteed loan funds to NDC as its subrecipient. NDC then loaned the proceeds, with other sources of financing, to the Upper Tier Investment Entity and the Spartanburg Investment Fund (SIF). SIF made an equity investment in the community development entity (CDE), which made two qualified low-income community investment (QLICI) loans, one to each of the qualified active low-income businesses (QALICB).

RESULT
Section 108 guaranteed funds were only loaned to the QALICB to finance the commercial space, preventing the funds from being used against program regulations for new housing construction.
• **Opportunity Zones.** Created by the 2017 Tax Cut and Jobs Act, Opportunity Zones are designed to stimulate private investment in designated, low-income census tracts nationwide. Since the law was enacted, Opportunity Zones have been designated in all 50 states, the District of Columbia, Puerto Rico, and in Insular Areas. Opportunity Zone designation incentivizes individuals and companies to invest equity in real estate projects or in businesses in these communities. The designation enables investors to temporarily defer and reduce their tax liability on investments made in privately- or publicly managed Opportunity Funds. As part of its recent Guidance on Submitting Consolidated Plans and Annual Action Plans for Fiscal Year (FY) 2019, HUD encouraged CDBG grantees to consider these types of partnerships and using funds for eligible activities in Opportunity Zones when developing their Consolidated Plans.

• **New Markets Tax Credit Program (NMTC).** The NMTC program helps economically distressed communities attract private capital by providing investors with a Federal tax credit. Investments made through the NMTC program are used to finance businesses, reinvigorating neglected, underserved low-income communities. CDBG grantees can use this program to catalyze investment in highly distressed communities, bringing more private sector partners to the table with flexible and affordable financing. Since 2003, the NMTC program has created or retained nearly 750,000 jobs. It has supported the construction of 84.6 million square feet of manufacturing space, 62.7 million square feet of office space, and 42.7 million square feet of retail space in communities nationwide.²

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2 Challenges and Opportunities in Building Successful Partnerships

The purpose of partnerships for community and economic development can only be achieved through true commitment from all partners involved. CDBG grantees play the roles of partner, catalyst, and facilitator, in addition to service provider. In these new and evolving roles, there are both challenges and opportunities to building partnerships with nonprofit organizations and other potential partners.

Some of the challenges faced include:

At the local level:

- Census Bureau data estimates that one in every five Americans will be retirement age by 2030. 2030 is also being projected as a milestone year in which older people will outnumber children for the first time in history. This phenomenon, known as “the Silver Tsunami,” will create challenges for nonprofit succession planning. As local leaders retire, the important relationships that help promote and sustain successful community development may go with them. Partners must address succession planning in a holistic

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and systematic way to keep the momentum going for long-term community revitalization efforts.

- While funding for CDBG has remained steady at approximately $3 billion, funding has not kept pace with inflation. This has caused an “erosion effect,” meaning CDBG grantees are receiving smaller grant amounts now than in the early days of the program, while the purchasing power of those grant funds is even less.

- Rural communities and other geographically isolated small towns have a unique need for more robust capacity and infrastructure upgrades that require regional partners. To build the capacity and infrastructure needed, it takes local leaders (i.e. mayors, county officials, etc.) to recognize the need and work together to build those partnerships. There are best practice examples across the country, but more can be done in places such as Appalachia, the Lower Mississippi River Delta, Colonias, and Tribal areas where persistent and generational poverty is predominant.

At the state level:

- State CDBG grantees annually receive far more requests for funding than can be met with the current federal appropriation. These state CDBG grantees estimate that over half of the requests they receive are not funded. ³

- Differences in state laws and enabling legislation present unique challenges to partnership. For example, some states allow the creation of separate development districts or redevelopment agencies while others have statutory or constitutional prohibitions against governmental entities providing assistance directly to private sector businesses.

- Building successful partnerships can be time- and resource-intensive, and not every possible partnership should move forward. For example, problems of regional competition versus cooperation among local governments within a metro area or competition among regions within a state do happen. Ultimately, CDBG grantees and potential partners must determine how well any relationship advances each organization’s mission and goals.

At the federal level:

- There are differing environmental review requirements for community development projects among federal programs. This is especially challenging when local communities try to leverage multiple federal funding sources for a given project.

- While federal interagency collaborative efforts have made significant strides to coordinate programs and streamline access to resources, there is still more work needed to help local communities navigate the broad range of public assistance available to them. For example, in New Orleans, LA, HUD and U.S. Department of Transportation (DOT)

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³ CDBG Survey Results from CDBG Coalition, [https://data.ncdaonline.org/cdbgletter.asp](https://data.ncdaonline.org/cdbgletter.asp)
staff worked together to respond to conflicting requirements for handling local hiring preferences in trying the blend the use of CDBG funds with DOT funds to complete a $4 million roadway project. Together, the interagency team developed and implemented a solution. This led to a cooperative agreement to use a ratio of one CDBG dollar for every nine Federal Highway Administration (FHWA) dollars under the CDBG regulations.⁴

Even with these challenges, there are still opportunities to further maximize the impact of CDBG funding.

- HUD will continue to encourage partnerships between CDBG grantees and public and private sector entities at the local level. By leveraging the program’s flexibilities, the impact of public and private investments in urban and economically distressed communities can be enhanced. This includes using innovative funding strategies such as Opportunity Zones, New Market Tax Credits, and Section 108 loan guarantees.

- There are increasing opportunities to coordinate and partner with other federal agencies to solicit feedback and leverage expertise in developing policies and procedures for CDBG. For example, the CDBG-Disaster Recovery (CDBG-DR) program at HUD works closely with partner agencies such as the Federal Emergency Management Agency (FEMA), the U.S. Department of Agriculture (USDA), and the U.S. Department of Energy (DOE) to ensure that Federal Register notices and requirements regarding disaster recovery are not duplicative. This coordination also ensures that each agency’s expertise is incorporated into the decisions that inform policies.

- Political and community leaders can work together to minimize the regulatory and administrative costs and burdens that discourage public and private investment in low- and moderate-income communities.

- Local jurisdictions can facilitate the creation of collaborative systems to improve the exchange of information and resources among CDBG grantees, subrecipients, and beneficiaries of CDBG-funded activities and community development projects.

- HUD continues to partner with and educate other federal agencies on how states and local grantees can use CDBG as a strategic lever to catalyze community and economic development. By providing technical assistance tools and guidance, HUD can help communities strategically structure their CDBG activities, particularly within Opportunity Zones.

- A growing partnership opportunity for CDBG grantees exists with community development financial institutions (CDFIs). These are non-profit and private financial institutions established to help low-income people and communities have additional sources of capital for economic development projects through affordable loans. CDFIs

encompass a range of nonprofit and for-profit entities including community development banks, community development credit unions, loan funds, venture capital funds, and microenterprise loan funds. CDFI funding can also be leveraged with CDBG funding to support redevelopment efforts in local communities. For example, the City of Roanoke, Virginia revitalized its low-income, at-risk West End neighborhood in 2014 with a combination of CDFI funding and CDBG funds nearing $1.2 million.\(^5\)

**Conclusion**

As outlined throughout this report, HUD has produced several resources and technical assistance tools to help CDBG grantees use funding efficiently and partner effectively with other key stakeholders. Most technical assistance resources can be found on the HUD Exchange at [https://www.hudexchange.info/](https://www.hudexchange.info/). The HUD Exchange is an online platform for providing program information, guidance, services, and tools to HUD’s community partners, including state and local governments, nonprofit organizations, continuums of care (CoCs), public housing agencies (PHAs), tribes, and partners of these organizations.

HUD has urged grantees to create and expand partnerships with eligible subrecipients who can demonstrate vision, promote innovation, and use CDBG as a catalyst for community transformation. As an example, in 2011, HUD issued a Community Planning and Development (CPD) Notice 2011-09, *Promoting Partnerships to Utilize Housing as a Platform for Improving Quality of Life*, to suggest ways to forge partnerships between Community Planning and Development grantees (including CDBG grantees), Public and Indian Housing agencies, subrecipients, and other federal agency partners to promote resident connections to health care, education, employment, and other social services in an effort to improve quality of life and provide a foundation for successful housing outcomes.

As the demand for housing and community development grows, so will the need to build successful partnerships with nonprofit organizations, community development financial institutions, community-based development organizations, local governments, and the private sector. In FY 2018, subrecipients or CBDOs expended nearly $430 million in CDBG funding nationwide. CDBG programs depend on these partners to carry out activities and deliver services in a cost-effective way.

These partnerships enable local communities to take advantage of the regulatory and statutory flexibilities of CDBG funding. They also allow enhanced participation by the intended beneficiaries in the design and delivery of CDBG activities and services. Finally, working collaboratively with other partners improves grantee accountability for national program and financial performance standards.

By continuing to work closely with these partners, CDBG grantees will maximize federal investments and achieve the program’s objectives – to provide Americans with decent housing, suitable living environments, and expanded economic opportunity.