

Date of Hearing: January 10, 2012

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE
ECONOMY

V. Manuel Pérez, Chair

AB 232 (V. Manuel Perez) – As Amended: January 4, 2012

SUBJECT: Community Development Block Grant Program

SUMMARY: Removes the more restrictive \$35,000 dollar-for-jobs state requirement from the small cities portion of the federal Community Development Block Grant Program (CDBG). The change conforms the state rules with federal law, allowing the California Department of Housing and Community Development (HCD), the program administrator, the flexibility to choose among two federal options for determining the appropriate dollar-for-jobs standard.

EXISTING LAW

- 1) Designates HCD as the administrator of the small cities portion of the federal CDBG program.
- 2) Provides Legislative intent that funds be provided to small and rural counties to encourage new housing and meet local economic development and needs.
- 3) Requires HCD to allocate no less than 51% of CDBG funds for providing or improving housing opportunities to low- or moderate-income households.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Purpose: According to the author, this bill will provide flexibility to the small cities portion of the federal CDBG Program and would allow CDBG grant money to be disbursed more quickly to local economic development projects. Under the federal guidelines, states are required to certify that economic development projects funded through the Small Cities program generate "a sufficient [public] benefit." Federal guidelines afford states several options for certifying public benefit ranging from the number of jobs created per investment to the level of goods and services generated for persons of low and moderate incomes. In California, however, the state chose to avail itself of only one of the options afforded under federal law for certifying public benefit. This measure removes the more limited requirement from the statute, allowing HCD the flexibility to more quickly certify and award funding for economic development projects across the state.

This is an important time to make this statutory change as HCD is currently taking other actions to streamline the application process. Among those changes, HCD will be shifting to a single mega grant application round per year from the current cycle of six per year. This will allow local governments to move more quickly through the funding process and get their projects into the pipeline faster. Local governments are pleased with this move because it will provide a significant cost savings for them. As part of the application process, small size communities often hire consultants to draft the applications, as well as hold public hearings.

Just at the point the community gets funded, it is time once again to apply for another portion of the program. Not having to constantly shift from one application to the next will relieve pressure on local government staff, enabling them to focus on other pressing local issues.

- 2) California Small Business: California's dominance in many economic areas is based, in part, on the significant role small businesses play in the state's \$1.9 trillion economy. Businesses with less than 100 employees comprise nearly 98% of all businesses, and they are responsible for employing more than 37% of all workers in the state.

Small- and medium-sized businesses are crucial to the state's international competitiveness and are an important means for dispersing the positive economic impacts of trade within the California economy. Of the over 57,461 companies that exported goods from California in 2008, 96% were small- and medium-sized enterprises (SME) with fewer than 500 employees. These SMEs generated nearly two-fifths (44%) of California's exports in 2008. Nationally, SMEs represented only 31% of total exports. These numbers include the export of only goods and not services.

Small businesses function as economic engines, especially in challenging economic times. During the nation's economic downturn from 1999 to 2003, microenterprises (businesses with less than five employees) created 318,183 new jobs or 77% of all employment growth, while larger businesses with more than 50 employees lost over 444,000 jobs. From 2000 to 2001, microenterprises created 62,731 jobs in the state, accounting for nearly 64% of all new employment growth. According to a 2010 report from the California Senate Office of Research, in 2008 microenterprises employed four million people or 19% of the state's employment. Common types of microenterprises include engineering, computer system design, housekeeping, construction, landscaping, and personnel services.

- 3) Community Development Block Grant Program: The CDBG Program was established by federal law in 1974. Large and medium sized municipalities are provided with allocations from the federal Housing and Urban Development Department. States administer allocations for the CDBG program for smaller cities and counties on a competitive basis. California's small cities CDBG program administered by HCD, provides funding to counties with fewer than 200,000 residents in unincorporated areas and cities with fewer than 50,000 residents that are not participants in the federal CDBG Program.

The chart below presents recent proposed budget information for the state's small cities CDBG Program.

State Community Development Block Grant Program

Fiscal Year	Total Funding	Administration	Local Assistance
2005/06	\$46,832,517	\$1,904,467	\$44,928,050
2006/07	\$43,037,021	\$1,845,558	\$41,191,463
2007/08	\$41,503,552	\$1,945,107	\$39,558,445
2008/09	\$39,262,869	\$3,226,371	\$36,036,498

2009/10	\$39,706,909	\$3,944,000	\$35,762,909
2010/11	\$42,877,288	\$1,551,948	\$41,325,340
2011/12	\$35,841,830	\$1,349,614	\$34,492,216

The primary objective of the CDBG Program is the development of viable communities through the provision of decent housing and suitable living environments, and by expanding economic opportunities. Pursuant to federal law, at least 51% of a CDBG project's beneficiaries must have incomes less than 80% of the area median income. This is known as the Targeted Income Group.

Each year the CDBG Program makes funds available to eligible jurisdictions through several allocations, including: General, Native American and Colonias; Economic Development – Over the Counter; Economic Development – Enterprise; and Planning and Technical Assistance allocations.

General, Native American and Colonias Allocations: The General, Native American and Colonias allocation is the largest component of the CDBG program. One and one quarter percent of state CDBG Program funds are awarded to projects serving Native Americans who do not belong to a federally recognized tribe or rancheria. Five percent is awarded to non-entitlement California communities (colonias) located within 150 miles of the California-Mexico border. Most of the funds in this allocation are spent for housing, community, and economic development projects serving lower-income households in small, typically rural communities.

Economic Development - Enterprise Fund: This allocation is intended to capitalize local businesses through grants and revolving loan funds that provide working capital or provide infrastructure assistance to businesses that create or preserve private sector jobs for low and very low income population. Grants and loans can be made up to \$500,000. Loan terms and conditions can be tailored to meet the financial needs of each business.

Economic Development - Over the Counter: This allocation is intended to capitalize a local business loan or finance a public infrastructure project which will promote business expansion and result in the creation and/or retention of permanent private sector jobs. Eligible uses of funds include business loans and grants to cities and towns for purchase of land and existing improvements, construction and rehabilitation of buildings and leasehold improvements, purchase of equipment, inventory, furniture, fixtures, materials and supplies, and working capital. Grants can be made up to \$500,000.

Planning and Technical Assistance: The grants made under this allocation are available for both general and economic development activities. The grants are intended to help communities move projects from concept to reality. A total of \$70,000 is available annually to each eligible community -- \$35,000 on the economic development side and \$35,000 for general development projects. Typical activities include: business development feasibility studies; business attraction and retention plans; housing needs studies; marketing studies;

social service needs assessments; technical assistance for specific businesses; and infrastructure needs assessments.

4) Related legislation: Below is a list of related bills.

- a) AB 1556 (Assembly Committee on Jobs, Economic Development and the Economy) - Community Development Block Grant Program: This bill would have required grantees of Community Development Block Grant (CDBG) funds for local revolving loan programs to contract with approved financial intermediaries. Status: Held in Assembly Committee on Appropriations, 2010.
- b) SB 194 (Florez) - Community Equity Investment Act of 2010: This bill would have provided that unless prohibited by federal regulations, local governments must include representation from disadvantaged unincorporated communities in their Citizen Advisory Committee. Status: Vetoed, September 30, 2010.

In his veto message, Governor Arnold Schwarzenegger wrote:

"This bill would establish, to the extent permitted by federal law, requirements governing the use of a citizen advisory committee (CAC) by a local government that chooses to use a CAC in the course of preparing plans for the expenditure of federal Community Development Block Grant (CDBG) funds received directly from the federal Department of Urban Development (HUD). This bill is unnecessary. The federal CDBG regulations already mandate a public hearing with significant outreach elements as part of the grant recipients' planning processes; further, imposing a state requirement on a federal program would be inappropriate and in fact may not be permitted by federal law and regulations."

REGISTERED SUPPORT / OPPOSITION:

Support

None Received

Opposition

None Received

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