



# The HUD Homeless Assistance Grants: Distribution of Funds

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## Summary

Currently, the U.S. Department of Housing and Urban Development (HUD) distributes four Homeless Assistance Grants, each of which provides funds to local communities to finance a range of housing and supportive services options for homeless persons. These four grants—the Emergency Shelter Grants (ESG) program, the Supportive Housing Program (SHP), the Shelter Plus Care (S+C) program, and the Section 8 Moderate Rehabilitation for Single Room Occupancy Dwellings (SRO) program—were enacted as part of the McKinney-Vento Homeless Assistance Act (P.L. 100-77).

The way in which the Homeless Assistance Grants are distributed will change, probably in FY2012, as the result of legislation enacted in the 111<sup>th</sup> Congress. The Homeless Assistance Grants were reauthorized as part of the Helping Families Save Their Homes Act (P.L. 111-22). The changes in P.L. 111-22 will have repercussions for the makeup of the Homeless Assistance Grants, the way in which funds are distributed to grantees, and the purposes for which grantees may use funds. The changes in P.L. 111-22 technically became effective as of November 20, 2010 (the law specified that provisions would take effect at the earlier of 18 months after enactment or three months from the date on which HUD publishes final regulations). However, HUD has not issued regulations, and has stated that until new regulations become effective, the current regulations governing the Homeless Assistance Grants continue in place. As a result, this report continues to describe how HUD currently distributes the four existing Homeless Assistance Grants.

HUD distributes the four Homeless Assistance Grants annually to eligible applicants, which include states, metropolitan areas, counties, nonprofit organizations, and public housing authorities. Funds for the ESG program are used primarily for the short-term needs of homeless persons, such as emergency shelter, while the SHP, S+C, and SRO programs address longer-term transitional and permanent housing needs. HUD uses one method to distribute funds for the ESG program and another method to distribute funds for the SHP, S+C, and SRO programs.

The ESG program distributes funds to states, counties, and metropolitan areas using the Community Development Block Grant (CDBG) program formula. In general, states and communities receive the same proportion of ESG funds that they received in CDBG funds the previous fiscal year. After they receive funds, states and communities then distribute them to homeless service providers, including nonprofit organizations and local government entities.

The SHP, S+C, and SRO grants are distributed through a competitive process called the Continuum of Care (CoC) application system (these three grants are sometimes referred to as the “competitive grants”). Through the CoC process, representatives from local community organizations work collaboratively to develop a plan for addressing homelessness in their area. They then determine which homeless services providers in the community should receive funding and submit a unified application to HUD. HUD then uses a multi-step process to award the grants. This involves both a formula aspect, through which HUD determines community need using the CDBG formula, and a competitive aspect, through which HUD assigns points for various elements included in the CoC application. This report describes the allocation of the Homeless Assistance Grants, as well as separate HUD funding for homelessness activities—the Homelessness Prevention and Rapid Re-Housing Program and Section 8 vouchers for homeless individuals and families proposed in the President’s FY2011 and FY2012 budgets.

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## Introduction

Homelessness in America has always existed, but it did not come to the public's attention as a national issue until the 1970s and 1980s, when the characteristics of the homeless population and their living arrangements began to change. Throughout the early and middle part of the 20<sup>th</sup> century, homelessness was typified by "skid rows"—areas with hotels and single-room occupancy dwellings where transient single men lived.<sup>1</sup> Skid rows were usually removed from the more populated areas of cities, and it was uncommon for individuals to actually live on the streets.<sup>2</sup> Beginning in the 1970s, however, the homeless population began to grow and become more visible to the general public. According to studies from the time, homeless persons were no longer almost exclusively single men, but included women with children; their median age was younger; they were more racially diverse (in previous decades the observed homeless population was largely white); they were less likely to be employed (and therefore had lower incomes); they were mentally ill in higher proportions than previously; and individuals who were abusing or had abused drugs began to become more prevalent in the population.<sup>3</sup>

A number of reasons have been offered for the growth in the number of homeless persons and their increasing visibility. Many cities demolished skid rows to make way for urban development, leaving some residents without affordable housing options.<sup>4</sup> Other possible factors contributing to homelessness include the decreased availability of affordable housing generally, the reduced need for seasonal unskilled labor, the reduced likelihood that relatives will accommodate homeless family members, the decreased value of public benefits, and changed admissions standards at mental hospitals.<sup>5</sup> The increased visibility of homeless people was due, in part, to the decriminalization of actions such as public drunkenness, loitering, and vagrancy.<sup>6</sup>

In the 1980s, Congress first responded to the growing prevalence of homelessness with several separate grant programs designed to address the food and shelter needs of homeless individuals.<sup>7</sup> Then, in 1987, Congress enacted the Stewart B. McKinney Homeless Assistance Act (McKinney Act), which created a number of new programs to comprehensively address the needs of homeless people, including food, shelter, health care, and education (P.L. 100-77). The act was later renamed the McKinney-Vento Homeless Assistance Act (McKinney-Vento) in P.L. 106-400 after its other prominent sponsor, Bruce F. Vento.<sup>8</sup>

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<sup>1</sup> Peter H. Rossi, *Down and Out in America: The Origins of Homelessness* (Chicago: The University of Chicago Press, 1989), pp. 20-21, 27-28.

<sup>2</sup> *Ibid.*, p. 34.

<sup>3</sup> *Ibid.*, pp. 39-44.

<sup>4</sup> *Ibid.*, p. 33.

<sup>5</sup> *Ibid.*, pp. 181-194, 41. See, also, Martha Burt, *Over the Edge: The Growth of Homelessness in the 1980s* (New York: Russell Sage Foundation, 1992), pp. 31-126.

<sup>6</sup> *Down and Out in America*, p. 34; *Over the Edge*, p. 123.

<sup>7</sup> These programs included the Emergency Food and Shelter Program (P.L. 98-8), the Emergency Shelter Grants Program (P.L. 99-591), and the Transitional Housing Demonstration Program (P.L. 99-591). In 1987, all three were incorporated into the Stewart B. McKinney Homeless Assistance Act (P.L. 100-77), although the Transitional Housing Demonstration Program was renamed the Supportive Housing Demonstration Program.

<sup>8</sup> For information about other programs created by the McKinney Act, see CRS Report RL30442, *Homelessness: Targeted Federal Programs and Recent Legislation*, coordinated by Libby Perl.

Among the programs authorized in the McKinney Act were four grants to provide housing and related assistance to homeless persons: the Emergency Shelter Grants (ESG) program, the Supportive Housing Demonstration program, the Supplemental Assistance for Facilities to Assist the Homeless (SAFAH) program, and the Section 8 Moderate Rehabilitation Assistance for Single Room Occupancy Dwellings (SRO) program. These four programs, administered by the U.S. Department of Housing and Urban Development (HUD), were created to provide temporary and permanent housing to homeless persons, along with supportive services. Over the years, Congress has changed the makeup of the Homeless Assistance Grants, but there are still four currently-funded programs, three of which were part of the original McKinney Act. The four existing grants are the ESG program, the Supportive Housing Program (SHP), the Shelter Plus Care (S+C) program, and the SRO program.

On May 20, 2009, for the first time since 1992, the Homeless Assistance Grants were reauthorized as part of the Helping Families Save Their Homes Act (P.L. 111-22). The new law is often referred to as the “HEARTH Act” after its title in P.L. 111-22 (the Homeless Emergency Assistance and Rapid Transition to Housing Act). The HEARTH Act will change the makeup of the four existing grants—the SHP, S+C, and SRO programs will be combined into one grant called the “Continuum of Care Program;” the ESG program will be renamed the “Emergency Solutions Grants;” and rural communities will have the option of competing for funds under a new Rural Housing Stability Assistance Program. The way in which the funds are distributed, the purposes for which grantees may use funds, and the people who may be served will also change.

The changes in the HEARTH Act technically became effective as of November 20, 2010 (the law specified that provisions would take effect at the earlier of 18 months after enactment or three months from the date on which HUD publishes final regulations). However, HUD has not issued regulations, and has stated that until new regulations become effective, the current regulations governing the Homeless Assistance Grants continue in place. As a result, this report continues to describe how HUD currently distributes the four existing Homeless Assistance Grants. In addition, citations to U.S. Code sections reflect the code as it existed prior to enactment of P.L. 111-22. For more information about the changes in P.L. 111-22, see the section of this report entitled “Reauthorization of the McKinney-Vento Homeless Assistance Grants.”

## **The Role of Congress and HUD in the Funding Process**

Since creating the four Homeless Assistance Grants in 1987, Congress has played a decreasing role in how funds are allocated among them. Initially, from FY1987 to FY1994, Congress appropriated funds separately for each of the four programs. However, beginning in FY1995 and continuing through FY2010, Congress appropriated one lump sum for all four programs, and HUD has then determined how those funds are distributed among the ESG, SHP, S+C, and SRO programs. However, in the FY2011 appropriations act Congress specified that at least \$225 million be set aside for ESG. (For a distribution of the grants from FY1987 through FY2011, see **Table 1**.)<sup>9</sup>

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<sup>9</sup> In addition to funds for the four grant programs, the congressional appropriation has also at times contained funds for items like training and technical assistance, data collection, and the Interagency Council on Homelessness. These amounts make up a small percentage of the total appropriation.

Typically, after Congress makes its annual appropriation for the Homeless Assistance Grants (this amount was approximately \$1.9 billion in FY2011—P.L. 112-10<sup>10</sup>), HUD has first allocated a portion of the total appropriation to the ESG program. This amount has been between about 9% and 15% of the total appropriation; HUD based this range of funding on the proportion of funds Congress devoted to the program in its FY1994 appropriation. In FY2011, the set-aside specified by Congress (\$225 million) is approximately 12% of the total.

After HUD has set aside the ESG funds from the appropriation, it sets aside funds to renew S+C permanent housing contracts in a separate account.<sup>11</sup> In every HUD appropriations act since FY2001, Congress has required HUD to provide funds to renew existing S+C contracts on an annual basis, as long as HUD determines that the S+C projects are needed and meet program requirements. The amount remaining after the ESG funds and S+C renewal funds are deducted from the total appropriation is then available for the SHP and SRO programs, and for new S+C projects. These remaining funds are not specifically dedicated to any of the three programs.

HUD uses two methods to distribute the funds to grantees—one for the ESG program and another for the three remaining programs. HUD awards the funds allocated to the ESG program through a formula allocation, and the SHP, S+C, and SRO program funds through a competitive application system. For this reason, the SHP, S+C, and SRO programs are sometimes called the “competitive” Homeless Assistance Grants.

**Table I. Funding for Homeless Assistance Grants,  
FY1987-FY2011**  
(\$ in thousands)

Fiscal Year	Formula Grant	Competitive Grants			Total Funds for HUD Homeless Programs (see note) (e)
	Emergency Shelter Grants (ESG) (a)	Single Room Occupancy (SRO) (b)	Shelter Plus Care <sup>a</sup> (S+C) (c)	Supportive Housing Program <sup>b</sup> (SHP) (d)	
1987	60,000	35,000	—	59,000	195,000 <sup>c</sup>
1988	8,000	—	—	65,000	72,000
1989	46,500	45,000	—	80,000	171,500
1990	73,164	73,185	—	126,825	284,004 <sup>d</sup>
1991	73,164	104,999	—	149,988	339,414 <sup>e</sup>
1992	73,164	105,000	110,533	150,000	449,960 <sup>f</sup>
1993	49,496	105,000	266,550	150,443	571,489
1994	113,840	150,000	123,747	334,000 <sup>g</sup>	822,747 <sup>h</sup>
1995	155,218	136,000	164,000	630,000	1,120,000 <sup>i</sup>

<sup>10</sup> The FY2011 appropriations law specifies that all discretionary programs are subject to an across-the-board rescission of 0.2%.

<sup>11</sup> Department of Housing and Urban Development, “Notice of Funding Availability (NOFA) for the Continuum of Care Homeless Assistance Program,” September 14, 2010, p. 24, <http://www.hudhre.info/documents/FY2010CoCNOFA.pdf> (hereinafter, FY2010 NOFA).

Fiscal Year	Formula Grant	Competitive Grants			Total Funds for HUD Homeless Programs (see note) (e)
	Emergency Shelter Grants (ESG) (a)	Single Room Occupancy (SRO) (b)	Shelter Plus Care <sup>a</sup> (S+C) (c)	Supportive Housing Program <sup>b</sup> (SHP) (d)	
1996	113,841	48,000	89,000	606,000	823,000
1997	113,727	24,000	61,000	663,000	823,000
1998	164,993	10,000	117,000	596,000	823,000
1999	150,000	17,000	151,000	556,000	975,000
2000	150,000	20,000	95,000	784,000	1,020,000
2001	149,670	14,000	174,000	760,000	1,122,525
2002	150,000	10,400	178,700	788,200	1,122,525
2003	149,025	11,200	237,000	865,400	1,217,037
2004	159,056	12,900	322,800	906,900	1,259,525
2005	158,720	14,900	304,400	860,900	1,229,214
2006	158,400	1,600	363,000	942,200	1,326,600
2007	160,000	1,611	383,000	942,900	1,434,403
2008	160,000	2,400	405,900	1,008,000	1,541,081
2009	160,000	0	487,900	1,069,700	1,677,000
2010	160,000	2,395	521,358	1,104,120	1,865,000
2011	224,550 <sup>i</sup>	—	—	—	1,901,190 <sup>i</sup>

**Sources:** The FY2011 Department of Defense and Full-Year Continuing Appropriations Act (P.L. 112-10, FY2011 funding levels), HUD Congressional Budget Justifications FY1988-FY2012 (all grants through FY1994, competitive grants from FY2002 to FY2006 and FY2008 to FY2009, and total funds for HUD homeless programs), HUD Homelessness Resource Exchange Continuum of Care Awards by Program Component (FY2007 competitive grants), HUD Community Planning and Development grantee list FY1993-FY2010 (ESG from FY1993 through FY2010), HUD's Office of Special Needs (competitive grants for FY1987 and from FY1995 through FY2001), and CRS analysis of HUD funding announcements (competitive grants for FY2010).

**Note:** Until FY1995, Congress separately appropriated funds for each of the four Homeless Assistance Grants. Since then, however, Congress has appropriated one amount for all four grants and HUD has divided the funds. Therefore, amounts in columns (a) through (d) in the years FY1987 through FY1994 represent appropriations, and those from FY1995 forward represent funds distributed to grantees. The amounts for each of the four separate grant programs may add up to more or less than the amount in column (e) "Total for HUD Homeless Programs," which is the amount appropriated for HUD homeless program activities in a given fiscal year. In some years, this could be due to the use of carryover funds, and in others, the sum of the four separate grants may add up to less than the total due to allocations to other funds like technical assistance, data collection, or the Interagency Council on Homelessness.

- a. The S+C program was authorized in 1990 by P.L. 101-645 and first received funding in FY1992.
- b. From FY1987 to FY1993, SHP was a demonstration program. In FY1987, it was called the Transitional Housing Demonstration Program (P.L. 99-591). SHP as it currently exists was authorized in P.L. 102-550.
- c. The total includes \$15 million for the Supplemental Assistance for Facilities to Assist the Homeless (SAFAH) program. In 1992, P.L. 102-550 incorporated elements of SAFAH and the Supportive Housing Demonstration Program into the new Supportive Housing Program.
- d. The total includes \$10,830,000 for the SAFAH program.
- e. The total includes \$11,263,000 for the SAFAH program.

- f. The total includes \$11,263,000 for the SAFAH program.
- g. In P.L. 103-124, Congress provided that of the amount appropriated for SHP, an amount not to exceed \$50 million could be used for the Safe Havens Demonstration Initiative and \$20 million for the Rural Housing Demonstration Program.
- h. The total includes \$100 million for the Innovative Homeless Initiatives Demonstration Program.
- i. The total includes \$25 million for the Innovative Homeless Initiatives Demonstration Program.
- j. The FY2011 Department of Defense and Full-Year Continuing Appropriations Act (P.L. 112-10) included an across-the-board rescission of 0.2% for all discretionary programs that is reflected in the totals.

## The Emergency Shelter Grants Program (ESG)

The ESG program, the oldest of the four existing Homeless Assistance Grants, was established one year prior to enactment of McKinney-Vento as part of the Continuing Appropriations Act for FY1987 (P.L. 99-591).<sup>12</sup> The funds distributed through the ESG program provide for the emergency shelter and service needs of homeless persons. The program uses the Community Development Block Grant (CDBG) program dual formula to distribute funds to both local communities (called “entitlement areas” and defined as metropolitan cities and urban counties<sup>13</sup>) and states (called “non-entitlement areas”) for distribution in communities that do not receive funds directly.<sup>14</sup> Puerto Rico is considered a state under the CDBG formula and the District of Columbia is an entitlement community. The territories (Guam, the Northern Mariana Islands, the Virgin Islands, and American Samoa) receive 0.2% of the ESG allocation which is then distributed based on population.<sup>15</sup> Tribes do not receive funds through ESG; instead, funds for homeless assistance are distributed through the Indian Community Development Block Grant.<sup>16</sup>

The CDBG program formula is meant to distribute funds based on a community’s need for development; the ESG program has used the CDBG formula to target funds for homeless assistance since its inception.<sup>17</sup> The formula awards funds to metropolitan cities and urban counties (70% of funds) and to the states for use in areas that do not receive funds directly (30% of funds).<sup>18</sup> The CDBG formula uses a combination of five factors to award funds to recipient communities. (The CDBG formula uses four separate methods to award funds; this paper does not discuss the details of these methods.) The five factors are population, the number of persons in poverty, housing overcrowding (homes in which there are more than 1.01 persons per room), the age of housing (the number of housing structures built prior to 1940), and the extent of growth lag in a given community (the lack of population growth in a community compared to the growth

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<sup>12</sup> The ESG program was initially part of H.R. 5313, which was incorporated into H.Rept. 99-1005, the Conference Report to accompany H.J.Res. 738, which became P.L. 99-591.

<sup>13</sup> See 42 U.S.C. 11373(a), which refers to the statute governing the Community Development Block Grant at 42 U.S.C. §§ 5302(a)(4)-(6). A metropolitan city is the central city within a metropolitan statistical area, or a city of 50,000 or more within a metropolitan statistical area, and an urban county is a county within a metropolitan area that has a population of 200,000 or more, or 100,000 or more if the county contains no incorporated areas.

<sup>14</sup> For more information about CDBG, see CRS Report R41754, *Community Development Block Grants: Funding Issues in the 112<sup>th</sup> Congress and Recent Funding History*, by Eugene Boyd.

<sup>15</sup> 24 C.F.R. § 576.5(a).

<sup>16</sup> U.S. Department of Housing and Urban Development, *Emergency Shelter Grants Program FY2008 Operating Instructions*, October 2008, p. 2, [http://www.hudhre.info/documents/ESG\\_OperatingInstructions\\_2008.pdf](http://www.hudhre.info/documents/ESG_OperatingInstructions_2008.pdf).

<sup>17</sup> For a description of the factors used in the CDBG formula, see the section of this report entitled, “The Role of the Community Development Block Grant Formula.”

<sup>18</sup> 42 U.S.C. §§ 5306(a) - (d).



rate it would have had if it had grown at the rate of other communities).<sup>19</sup> The factors are measured as ratios between the recipient community and all grant recipients. The CDBG formula was last changed in 1977 (P.L. 95-128).

After the CDBG formula determines the amount of ESG funds each state and community receives, they, in turn, allocate the funds to local government entities and nonprofit organizations that provide services for homeless persons. These recipient organizations may use funds for four main purposes: the renovation, major rehabilitation or conversion of buildings into emergency shelters; services such as employment counseling, health care, and education; homelessness prevention activities such as assistance with rent or utility payments; and operational and administrative expenses.<sup>20</sup> States and communities must ensure that not more than 30% of the total ESG funds they receive is used for services, not more than 30% is used for homelessness prevention activities, not more than 10% is used for staff costs, and not more than 5% is used for administrative costs.<sup>21</sup>

## **Distribution of ESG Funds**

As a condition for receiving ESG funds, states and communities must present HUD with a consolidated plan explaining how they will address community development needs within their jurisdictions. The consolidated plan is required in order for communities to participate in four different HUD grant programs, including ESG.<sup>22</sup> The plan is a community's description of how it hopes to integrate decent housing, community needs, and economic needs of low- and moderate-income residents over a three- to five-year time span.<sup>23</sup> Consolidated plans are intended to be collaborative efforts of local government officials, representatives of for-profit and non-profit organizations, and community members. HUD may disapprove a community's consolidated plan with respect to one or more programs, although communities have 45 days to change their plans to satisfy HUD's requirements.<sup>24</sup> If HUD disapproves the ESG portion of the plan, the applicant community will not receive ESG funds.

If HUD approves a community's consolidated plan, the community will receive ESG funds based on its share of CDBG funds from the previous fiscal year. However, the community must have received at least 0.05% of the total CDBG allocation in order to qualify to receive ESG funds.<sup>25</sup> In cases where a community would receive less than .05% of the total ESG allocation, its share of funds goes to the state to be used in areas that do not receive their own ESG funds.<sup>26</sup> For example, if a community received 0.08% of the total CDBG allocation to the states in FY2000, it would receive that same percentage of ESG funds in FY2001. In FY2011, an estimated 360 states, cities,

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<sup>19</sup> 42 U.S.C. § 5306.

<sup>20</sup> 42 U.S.C. § 11374(a).

<sup>21</sup> *Ibid.*

<sup>22</sup> The other programs are the Community Development Block Grant program, the HOME program, and the Housing Opportunities for Persons with AIDS (HOPWA) program. For more information about HOME, see CRS Report R40118, *An Overview of the HOME Investment Partnerships Program*, by Katie Jones, and for more information about HOPWA, see CRS Report RL34318, *Housing for Persons Living with HIV/AIDS*, by Libby Perl.

<sup>23</sup> 24 C.F.R. § 91.1(a).

<sup>24</sup> 24 C.F.R. § 91.500.

<sup>25</sup> 42 U.S.C. § 11373.

<sup>26</sup> 42 U.S.C. § 11373(b).

counties, and territories will receive ESG funds.<sup>27</sup> The \$225 million that Congress stipulated be set aside for ESG represented approximately 12% of the total amount appropriated for the Homeless Assistance Grants.

After the recipient states and entitlement communities receive their ESG funds, they distribute them to local government entities or nonprofit organizations that provide services to homeless persons. These recipient organizations have been previously determined by the state or local government through an application process in which organizations submit proposals—HUD is not involved in this process. Each recipient organization must match the federal ESG funds dollar for dollar.<sup>28</sup> The match may be met through the value of donated buildings, the lease value of buildings, salary paid to staff, and volunteer time counted at \$5 an hour.<sup>29</sup>

## **The Three Competitive Homeless Assistance Grants**

The bulk of the funding for the Homeless Assistance Grants is awarded to the three competitive grant programs: the SHP, S+C, and SRO programs. In FY2010, more than 90% of the total amount of funds appropriated for the four grant programs went to the competitive grants. The composition of the homeless programs that are part of the competitive grant process has remained relatively stable since the passage of McKinney-Vento in 1987. The three existing programs have together comprised the competitive grants since FY1992. Both the SHP and the SRO program were part of the original McKinney Act in 1987, and the S+C program was added in 1990 (P.L. 101-645). Congress later made two other programs, the Safe Havens for Homeless Individuals Demonstration Program and the Rural Homeless Housing Assistance Program (both enacted in P.L. 102-550), part of McKinney-Vento, and gave HUD authority to allocate funds to them from the SHP appropriation. While Safe Havens have been an eligible use of SHP dollars ever since, the Rural title of McKinney-Vento was never funded.

The three competitive Homeless Assistance Grants each perform somewhat different functions, but all three have a unified focus in that they concentrate on the longer-term needs of homeless individuals and families rather than their emergency requirements. These longer-term needs include transitional housing (up to 24 months), permanent housing, and supportive services. Supportive services are designed to help homeless individuals with a variety of issues that might prevent them from being able to find and maintain permanent housing (for example, employment counseling, health care, and child care). Differences among the programs occur in the eligible uses of funds, the way in which housing to homeless persons is provided, match requirements by grant recipients, and the eligible populations served. (For a breakdown of some of these distinctions, see **Table 2**.)

### **The Supportive Housing Program (SHP)**

The SHP provides funds for transitional housing for homeless individuals and families for up to 24 months, permanent housing for homeless individuals with disabilities, and supportive

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<sup>27</sup> HUD Office of Community Development, <http://www.hud.gov/offices/cpd/about/budget/budget11/index.cfm>.

<sup>28</sup> 42 U.S.C. § 11375(a).

<sup>29</sup> *Ibid.*

services.<sup>30</sup> In FY2010, approximately 68% of total HUD competitive grant funds went to recipients as SHP grants.<sup>31</sup> Eligible applicants for SHP grants include states, local government entities, public housing authorities (PHAs), private nonprofit organizations, and community mental health centers.<sup>32</sup> Grant recipients can provide housing together with services, or can choose to provide services only (without a housing program component). Specifically, funds may be used to acquire and/or rehabilitate buildings that will be used either to provide supportive housing or buildings that will be used to provide supportive services only. Funds may also be used to *construct* buildings that will be used for supportive housing (but not supportive services only).<sup>33</sup>

In addition to financing physical structures, grantees may use funds to provide services like case management, health care, child care, housing assistance, nutritional counseling, and employment assistance. Grant recipients may provide these services themselves, or through contracts with outside providers. In addition, grant recipients may use funds to pay for up to 75% of their annual operating expenses and to help implement a Homeless Management Information System (HMIS) to keep records regarding the homeless individuals served within their community.

Recipients of SHP grants are required to meet match requirements. All of the matching funds must be provided by cash sources,<sup>34</sup> but the level of non-federal funds required varies with the type of activity undertaken. Funds that are to be used for acquisition, rehabilitation, or new construction must be matched with an equal amount of the grant recipient's own funds.<sup>35</sup> Those SHP grantees that receive funds for supportive services must provide at least a 20% match with funds from other sources, while grantees that receive funds for operating expenses must provide at least a 25% match of these funds on their own.<sup>36</sup>

## **The Single Room Occupancy Program (SRO)**

The Single Room Occupancy (SRO) program provides permanent housing to homeless individuals in efficiency units similar to dormitories, with single bedrooms, community bathrooms, and kitchen facilities. In FY2010, two new competitive grants were awarded to SRO projects for a total of approximately \$2.4 million.<sup>37</sup> The SRO program does not require homeless residents to have a disability and does not fund supportive services. Eligible applicants for SRO grants are PHAs and private nonprofit organizations.<sup>38</sup> SRO units are funded as part of HUD's Section 8 Moderate Rehabilitation program, which requires grant recipients to spend at least \$3,000 per unit to rehabilitate property to be used for SRO housing in order to bring the property

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<sup>30</sup> At least 10% of total SHP funds must be used for supportive services, at least 25% must be used for projects that serve families with children, and at least 25% must be used for projects that serve homeless persons with disabilities. 42 U.S.C. § 11389(b).

<sup>31</sup> CRS analysis of HUD grant announcements, available at [http://portal.hud.gov/hudportal/documents/huddoc?id=press\\_report2010.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=press_report2010.pdf), and [http://www.hud.gov/offices/cpd/homeless/budget/2010/10\\_all\\_grants.pdf](http://www.hud.gov/offices/cpd/homeless/budget/2010/10_all_grants.pdf).

<sup>32</sup> 42 U.S.C. § 11382(1).

<sup>33</sup> 42 U.S.C. § 11383.

<sup>34</sup> 24 C.F.R. § 583.145.

<sup>35</sup> 42 U.S.C. § 11386(e).

<sup>36</sup> FY2010 NOFA, p. 10.

<sup>37</sup> U.S. Department of Housing and Urban Development, *FY2010 Continuum of Care Competition Homeless Assistance New Project Awards*, April 28, 2011, [http://portal.hud.gov/hudportal/documents/huddoc?id=press\\_report2010.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=press_report2010.pdf).

<sup>38</sup> 42 U.S.C. § 11401(j).

into compliance with HUD's housing quality standards.<sup>39</sup> Grant recipients are reimbursed for the costs of rehabilitating SRO units through Section 8 rental assistance payments that they receive over a ten-year contract period. The costs of rehabilitation are amortized and added to a base rental amount. The maximum amount that a building owner can spend per unit and still be reimbursed is \$22,500 as of FY2010 (this amount is updated annually).<sup>40</sup> After the 10-year rental contracts expire, they are not renewed through the Homeless Assistance Grant competition, but through the Section 8 project-based rental assistance account on an annual basis.<sup>41</sup>

## The Shelter Plus Care Program (S+C)

The S+C program provides permanent supportive housing through rent subsidies for homeless individuals with disabilities and their families. In FY2010, approximately 32% of total competitive grant funds went to S+C grantees.<sup>42</sup> Eligible applicants for the S+C grants are states, local government entities, and PHAs.<sup>43</sup> The S+C rent subsidies may be tenant-based vouchers, project-based rental assistance, sponsor-based rental assistance, or single room occupancy housing.<sup>44</sup> With tenant-based vouchers, residents find private market housing much as they would with a Section 8 voucher; project-based assistance is provided to building owners and attached to specific units of housing (unlike a portable voucher); with sponsor-based assistance, grant recipients contract with private nonprofit housing providers or community mental health centers to provide housing; and rental assistance for SROs is targeted to a particular development.<sup>45</sup> The S+C program requires grant recipients to match the amount of grant funds they receive for rental assistance with an equal amount of funds that they will use to provide supportive services.<sup>46</sup> The services under S+C are similar to those provided in the SHP, and include activities like physical and mental health care, substance abuse counseling, child care services, case management, and educational and job training.<sup>47</sup> Grant recipients can fulfill their match requirement with cash, the value of a lease, salary expenses for employees, or the time of volunteers.

### Resident Contributions to Housing Costs

In the SHP, S+C, and SRO programs, residents are asked to pay a portion of their income toward rent, if they are able. In all three programs, rent may not exceed the greater of 30% of adjusted income, 10% of gross income, or if a family receives welfare benefits, the portion of the benefit designated for housing costs.

<sup>39</sup> 24 C.F.R. § 882.802.

<sup>40</sup> See FY2010 NOFA, p. 25.

<sup>41</sup> Ibid.

<sup>42</sup> CRS analysis of HUD grant awards. See footnote 31 for sources.

<sup>43</sup> 42 U.S.C. § 11403g(2).

<sup>44</sup> 42 U.S.C. §§ 11404-11406b.

<sup>45</sup> U.S. Department of Housing and Urban Development, *Shelter Plus Care Resource Manual*, Section 1.2, <http://www.hudhre.info/index.cfm?do=viewSpcResourceMan>.

<sup>46</sup> 42 U.S.C. § 11403b(a).

<sup>47</sup> 24 C.F.R. § 582.5.

**Table 2. Characteristics of the SHP, S+C, and SRO Programs**

Program Characteristics	Supportive Housing Program (SHP)	Shelter Plus Care (S+C)	Single Room Occupancy (SRO)
Eligible Uses of Funds	-Transitional Housing -Permanent Housing -Supportive Services -Operating Expenses	-Permanent Housing	-Permanent Housing
Eligible Applicants	-States -Local Government Entities -PHAs -Private Nonprofits -Community Mental Health Centers	-States -Local Government Entities -PHAs	-PHAs -Private Nonprofits
Eligible Populations	-Families and individuals (transitional housing and services only) -Individuals with disabilities	-Individuals with disabilities and their families	-Individuals
Match Requirements	-Dollar for Dollar (acquisition, rehabilitation, or construction) -20% (services) -25% (operating expenses)	-Equal amount of funds for services	-No match requirement
FY2010 Percentage of Competitive Funds	67.83%	32.03%	0.15%

**Source:** The McKinney-Vento Homeless Assistance Act, Title IV, Subtitles C, E, and F, 42 U.S.C. §§ 11381-11389, 11401, and 11403-11407b, and CRS analysis of FY2010 HUD Homeless Assistance Grant allocations.

## Distribution of the Competitive Grants and the Continuum of Care (CoC) Process

The three competitive grants are distributed to eligible applicant organizations through a complex, multi-step process that involves both formula and competitive elements. HUD first uses the CDBG formula to determine the need levels of local communities (generally, a combination of cities and counties); the need level is effectively the maximum amount of funding that a given community can receive. HUD then determines through a competition whether applicant organizations that provide services to homeless persons qualify for funds. In the early years that the Homeless Assistance Grants existed, individual homeless services providers applied to HUD directly for funds. However, since FY1996 HUD has required applicants to participate in a collaborative community process called the Continuum of Care (CoC) application system if they

want to receive SHP, S+C, or SRO funds. For an overview of how funds are distributed, see **Figure 1**, at the end of this section.

## **The Continuum of Care**

HUD developed the CoC as both a way for communities to plan services that will address the needs of homeless persons, and the method through which service providers apply for HUD funds.<sup>48</sup> Under the CoC strategy, local communities establish CoC advisory boards made up of representatives from local government agencies, service providers, and community members who meet to establish local priorities and strategies to address homelessness in their communities. The CoC plan that results from this process is meant to contain elements that address the continuum of needs of homeless persons: prevention of homelessness, emergency shelter, transitional housing, permanent housing, and supportive services provided at all stages of housing.<sup>49</sup> The CoC system was created in 1993 as the Innovative Homeless Initiatives Demonstration Program, a grant program that provided funding to communities so that they could become more cohesive in their approach to serving homeless people.<sup>50</sup> Since then, nearly every community in the country has become part of a CoC, with approximately 452 CoCs in existence as of 2010, including those in the territories.<sup>51</sup>

Since the FY1996 grant application process for the competitive Homeless Assistance Grants, the CoC system has also been the vehicle through which local service providers apply for HUD competitive grants.<sup>52</sup> The process of applying for the competitive Homeless Assistance Grants begins at the local level when individual applicant organizations apply to their CoC advisory boards to be included in a unified CoC application to HUD for funding. Continuums have flexibility in how they set up their application processes, called the “review and ranking” process, and may have written guidelines available for applicants. HUD requires that the process be fair, and CoCs must explain in their grant applications to HUD the methods they use to ensure fairness, together with a list of any complaints they received from applicant organizations.<sup>53</sup> Applicant organizations may also address fairness and other concerns directly to HUD.

Each CoC selects the homeless assistance projects that it thinks should be funded and prioritizes them in a list that is included in an overall CoC application to HUD. The CoC application packet accompanying the list has multiple parts. It includes an overall CoC application with information about the CoC structure and assessment of community needs, and individual applications for each listed project that the CoC recommends for funding. Continuums send the entire application

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<sup>48</sup> The development of the Continuum of Care system is described in *Priority: Home! The Federal Plan to Break the Cycle of Homelessness*, The U.S. Department of Housing and Urban Development, 1994, pp. 73-75.

<sup>49</sup> Barnard-Columbia Center for Urban Policy, *The Continuum of Care: A Report on the New Federal Policy to Address Homelessness*, U.S. Department of Housing and Urban Development, December 1996, p. 9.

<sup>50</sup> See U.S. Department of Housing and Urban Development, “Funding Availability for Fiscal Year 1994 for Innovative Project Funding Under the Innovative Homeless Initiatives Demonstration Program,” *Federal Register* vol. 58, no. 243, December 21, 1993, pp. 67616-67618.

<sup>51</sup> “HUD-Defined CoC Names and Numbers Listed by State,” Revised April 2010, <http://www.hudhre.info/documents/2010ListingCoCs.pdf>.

<sup>52</sup> U.S. Department of Housing and Urban Development, “Continuum of Care Homeless Assistance; Funding Availability,” *Federal Register* vol. 61, no. 52, March 15, 1996, pp. 10865-10877.

<sup>53</sup> Exhibit I of Continuum of Care application, <http://www.hud.gov/offices/adm/hudclips/forms/files/40090-1.doc>. This document is from the 2007 application. Since FY2008, HUD has used an online application system, and application materials are not available.

packet to HUD, which in turn determines the projects that will be funded, and how much funding each will receive. Note that HUD determines funding at the individual *project* level, not the CoC level, although HUD considers factors involving the CoC in making its decisions.

## **HUD Determination of CoC Pro Rata Need**

Before the CoC applications even arrive at HUD, the agency goes through a process where it calculates each community's "pro rata need." Pro rata need is meant to represent the dollar amount that each community (city, county, or combination of both) needs in order to address homelessness. HUD determines a pro rata need amount for each community and then adds together the individual need amounts of the communities within a CoC to arrive at a pro rata need amount for the entire Continuum. This CoC pro rata need amount is essentially the maximum amount of HUD Homeless Assistance Grant funds for which a CoC can qualify. Pro rata need does not include amounts needed to renew S+C contracts or amounts for a Permanent Housing Bonus (described later in this section). CoCs qualify for either a "preliminary pro rata need" (PPRN) level or a "hold harmless need" (HHN) level, described below.

### ***Preliminary Pro Rata Need***

To calculate preliminary pro rata need, HUD takes the proportion of funds each community is entitled to under the ESG program (which uses the CDBG formula), and multiplies this proportion by the total amount of competitive funds available to grantees (after subtracting the amount needed for S+C renewals) to arrive at a dollar amount of preliminary pro rata need. For example, if a city is eligible for 0.08% of total ESG funds, and \$1.1 billion is available for the competitive Homeless Assistance Grants in a given year, the dollar amount of preliminary pro rata need assigned to that community is \$960,000. The preliminary pro rata need amount for each city and county within a CoC is then added together to arrive at a total preliminary pro rata need amount for the CoC.

### ***Hold Harmless Pro Rata Need***

HUD applies a hold harmless level of need in cases where the total cost of a CoC's one-year renewal of SHP contracts exceeds the preliminary pro rata need amount. In these cases, an amount equal to the difference between preliminary pro rata need and the cost of SHP renewals is added to preliminary pro rata need to bring the CoC up to a hold harmless level (effectively this means that the cost of SHP one-year renewals is the hold harmless level). For example, a Continuum's total cost of renewing SHP contracts is \$4 million, but the preliminary pro rata need is only calculated to be \$2.3 million. The difference between these two amounts (\$1.7 million) is added to preliminary pro rata need (\$2.3 million) to arrive at the hold harmless need level of \$4 million.

Beginning with the FY2005 grant competition, HUD allowed CoCs to reallocate their hold harmless need from existing SHP projects to new projects under any of the three competitive grants. In the FY2008 competition, CoCs could also choose to reallocate SHP renewal funds to an HMIS project. HUD did not allow CoCs to reallocate hold-harmless need in FY2009, but

resumed the reallocation policy for FY2010, allowing funds to go to permanent housing projects or HMIS.<sup>54</sup>

### ***Final Pro Rata Need***

Final pro rata need (FPRN) is the higher of PPRN or HHN. Whether the CoC is in PPRN status or HHN status, in order to receive sufficient funding for existing projects that must be renewed, the CoC must prioritize those renewal projects within the final pro rata need level, or they will not receive sufficient funding.

In the FY2010 competition for funds, HUD encouraged CoCs to merge in cases where the resulting geographic entity would be able to operate more efficiently and effectively than the individual CoCs. According to HUD, this may particularly be the case for smaller CoCs that merge with larger ones.<sup>55</sup> However, in order to merge, at least one CoC has to be in PPRN status and one has to be in HHN status. The FPRN for merging CoCs is the sum of the FPRNs for each individual CoC (the higher of PPRN or HHN).

### ***Permanent Housing Bonus (Previously the Samaritan Housing Initiative)***

The Permanent Housing Bonus, formerly called the Samaritan Housing Initiative or Samaritan Bonus, consists of funds appropriated through the competitive Homeless Assistance Grants that HUD has set aside for grantees to develop permanent supportive housing for homeless individuals. The way in which the funds can be used has evolved over the years. For the first few years after HUD created the Samaritan Initiative or Bonus (from FY2005 through FY2007), funds were awarded as part of the CoC competition, with the bonus computed as part of the pro rata need process. FY2008 was the first year in which funds for the Samaritan Bonus were awarded separately. In FY2009, the Samaritan Bonus was renamed the Permanent Housing Bonus, and the way in which CoCs can use funds was expanded. The bonus is available again in FY2010.

Under the Samaritan Bonus, CoCs had to use funds to create new permanent supportive housing for chronically homeless individuals. Until enactment of the HEARTH Act, a chronically homeless person was defined as an individual with a disabling condition who had been continuously homeless for one year or has had four episodes of homelessness in the last three years.<sup>56</sup> Initially, CoCs could not create more than one project with Samaritan Bonus funds, but in FY2008 CoCs could propose and receive funding for one or more projects. In the FY2009 and FY2010 competitions, HUD expanded the populations that CoCs could serve—grantees can now create permanent supportive housing for individuals with disabilities or families with an adult member who has a disability.

A CoC may qualify for additional funds under the Permanent Housing Bonus up to a maximum of 15% of its preliminary pro rata need or \$6 million, whichever is lower. For example, if a Continuum has a preliminary pro rata need of \$2 million with a hold-harmless level that brings its

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<sup>54</sup> FY2010 NOFA, pp. 8.

<sup>55</sup> *Ibid.*, pp. 13-14.

<sup>56</sup> 24 C.F.R. § 91.5. The HEARTH Act amended the definition to include homeless families with an adult head of household who has a disability.



need level up to \$3 million, it may receive a Permanent Housing Bonus of \$300,000 (15% of \$2 million).<sup>57</sup>

## **Renewal of SHP and S+C Projects**

As mentioned earlier in this report, renewals of S+C contracts take place outside of the CoC competition due to language in appropriations acts that require renewal as long as a given project is “determined to be needed” and meets financial and program standards.<sup>58</sup> However, until FY2009 SHP renewals had been made as part of the competitive process. But beginning in FY2009 and continuing in FY2010, HUD also renewed previously funded SHP contracts (including HMIS) that were set to expire in 2011 for one year outside of the competitive process.<sup>59</sup> In order to be renewed, projects had to meet certain threshold requirements including performance, timeliness in expenditure of previously awarded funds, and assistance to program participants.<sup>60</sup> As a result, the FY2009 and FY2010 competitive processes, described in the next section, have consisted of proposals for new projects only.

## **The Competition for New Project Funding**

### *Threshold Review*

When CoC applications arrive at HUD, the agency first goes through a threshold review of the individual project applications within each CoC application. In this process, HUD looks at various eligibility factors to ensure that every participant in the proposed projects (from applicant organizations to clients who will be served) is eligible for the Homeless Assistance Grants for which they are applying. The following list is illustrative of the factors that HUD considers, and does not include every element that HUD reviews.<sup>61</sup>

- HUD confirms that applicants are eligible to operate the program for which they are seeking funds. For example, only PHAs and private nonprofit organizations may operate an SRO project.
- The applications must demonstrate that the proposed projects are eligible for funding, for example that the population to be served is eligible for assistance, that the projects will be accessible to persons with disabilities, that they are cost effective, and that the applicant organizations are participating (or will participate) in any local Homeless Management Information System.
- HUD assesses the potential quality of proposed projects by ensuring that the type of housing and its location fit the needs of participants, and that participants will be assisted with a variety of services.

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<sup>57</sup> FY2010 NOFA, p. 11.

<sup>58</sup> See the FY2010 Consolidated Appropriations Act, P.L. 111-117.

<sup>59</sup> U.S. Department of Housing and Urban Development, “HUD Awards \$1.4 Billion to Nearly 7,000 Local Homeless Programs—Part of Administration Plan to Prevent & End Homelessness,” press release, January 19, 2011, [http://portal.hud.gov/hudportal/HUD?src=/press/press\\_releases\\_media\\_advisories/2011/HUDNo.11-005](http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2011/HUDNo.11-005).

<sup>60</sup> FY2010 NOFA, pp. 19-20.

<sup>61</sup> For all of the eligibility factors, see FY2010 NOFA, pp. 18-19.

- In order to receive funding, projects must comply with civil rights and fair housing requirements.

### *Scoring the Applications*

In the final step, HUD reviews each individual project application and assigns points to each project that the Continuums have recommended for funding. Until the FY2008 competition, HUD awarded a total of 100 points in two categories: points for need (40 points) and for CoC factors (60 points). Need was based on each individual project's ranking within a CoC's application, while CoC factors were based on various characteristics and performance outcomes of CoCs. However, in the FY2008 competition, HUD eliminated points for need; instead, need is accounted for in the pro rata need determination process. The entire 100 points are now awarded on the basis of CoC factors. Note that even though points are based on CoC applications, points are awarded to individual projects within the CoC application. This means that each project proposed by a given CoC receives the same score.

The points that are awarded to projects on the basis of CoC factors are used to determine which projects will be funded. Projects that score above a certain point threshold will receive full funding up to their final pro rata need. In cases of ties, HUD has established a tie-breaking system.<sup>62</sup> The threshold number of points needed to be funded varies from year to year. In FY2010, HUD has established a scoring threshold of 65 points for new projects to be funded.<sup>63</sup>

### *Points for Continuum of Care Factors*

The CoC factors that HUD scores may vary from year to year. In the most recent Notice of Funding Availability, for FY2010, there were five categories in which projects were scored.<sup>64</sup> The categories were the same as those that HUD evaluated in FY2009. Below are descriptions of the factors HUD will evaluate in the FY2010 competition, together with the point totals for each.

- **CoC Housing, Services, and Structure:** HUD awards points for the existence of an inclusive and outcome-oriented community process to develop a CoC strategy, and a fair and impartial project review and selection process. The strategy should be comprehensive, addressing the continuum of services, and designed to serve all homeless subpopulations. In addition, the CoC should have created, maintained, and built upon housing and services available to meet the needs of homeless persons. A total of 14 points is available in this category.
- **Homeless Needs and Data Collection:** This category awards points on the basis of a CoC's understanding of the number of homeless individuals in the CoC's area and their needs, as well as a CoC's progress in implementing an HMIS to compile information about clients served and provide an unduplicated count of homeless persons. A total of 26 points is available in this category.
- **CoC Strategic Planning:** HUD awards points in this category to Continuums with 10-year plans to end chronic homelessness, and those with discharge policies for

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<sup>62</sup> Ibid., pp. 33-34.

<sup>63</sup> Ibid., p. 33.

<sup>64</sup> Ibid., pp. 28-31.

persons leaving institutional care (for example, correctional facilities, hospitals, or foster care). HUD also considers whether CoCs are able to leverage funds from other sources for new projects and the extent to which they coordinate with other federal homeless programs in their area (such as the HUD-VA Supported Housing Program (HUD-VASH) and the Homelessness Prevention and Rapid Rehousing Program (HPRP)) as well as HUD projects funded through the American Recovery and Reinvestment Act. A total of 22 points is available in this category.

- **CoC Performance:** The factors considered in this category include steps that CoCs have taken to meet their goals, whether CoCs have increased the number of permanent housing beds for chronically homeless individuals, whether there has been a decrease in chronic homelessness, the success that homeless individuals have in remaining in permanent housing, the success of homeless individuals in gaining access to available government programs and funds, and the implementation of energy-efficiency measures in housing and community facilities. A total of 32 points is available in this category.
- **Emphasis on Housing Activities:** Within this category, HUD awards points to Continuums based on the percentage of funds to be used to provide housing (versus services) in new projects only. CoCs need not use all funds for housing in order to receive the maximum number of available points. A total of six points is available in this category.

### *Funding Priorities*

Notwithstanding the scoring system, HUD set out funding priorities for the FY2010 CoC funds, including a set aside of \$30 million to fund new housing projects in areas that are considered 100% rural. The priorities, including funding for rural areas, work as follows.

- As mentioned previously, HUD funds eligible S+C renewal projects, and then funds renewals of eligible SHP projects.<sup>65</sup>
- Next, as directed by the appropriations law, HUD must reserve 30% of funds for permanent housing for homeless persons (excluding the funds used for S+C renewal projects). SHP renewals of permanent housing contracts count toward the 30% threshold, but if they are insufficient, HUD will select (1) new permanent housing projects that will serve 100% rural areas in order by total points scored;<sup>66</sup> (2) new permanent housing projects in CoCs generally, whether in rural areas or not; and (3) Permanent Housing Bonus projects.
- Once the 30% threshold for permanent housing is met, HUD may decide to fund HMIS projects even if they have lower point totals than other proposed projects.
- HUD will fund transitional housing and safe haven projects that propose to serve 100% rural areas.
- After the previous priorities are met, HUD will fund new CoC projects in order by their CoC score.

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<sup>65</sup> *Ibid.*, pp. 31-32.

<sup>66</sup> The 2010 NOFA lists counties that qualify as 100% rural.

### ***Allocation of the Grants***

Despite the fact that Continuums of Care serve as intermediaries between HUD and individual homeless service providers during the application process, funds go directly to service providers, not to the CoC. Projects receive funding for between one and ten years depending on the type of project and whether it is a new contract or a renewal. New SHP projects are funded for two or three years, although renewals in FY2010 were funded for one year.<sup>67</sup> Initial S+C contracts run for five years or for 10 years if the projects are either SRO units or involve project-based rental assistance where rehabilitation has occurred.<sup>68</sup> S+C renewals are made for one year at a time. SRO projects are funded for ten years (renewals take place outside the Homeless Assistance Grant application process).<sup>69</sup> Grant recipients enter into a grant agreement with HUD, and must follow deadlines regarding construction and obligation of funds.<sup>70</sup>

## **Special Activities**

In recent years, HUD has distributed funds to serve homeless individuals through programs that are not directly part of the four Homeless Assistance Grants discussed in this report. Each of the three programs—the Rapid Re-Housing Demonstration Program, the Homelessness Prevention and Rapid Re-Housing Program, and targeted Section 8 vouchers—reflects different policy priorities when it comes to serving homeless individuals.

The Rapid Re-Housing Demonstration, for which Congress appropriated funds in FY2008, focused on finding housing for homeless families with children, a group sometimes thought to be neglected in favor of serving chronically homeless individuals. The Homelessness Prevention and Rapid Re-Housing Program (HPRP) expanded on the Rapid Re-Housing Demonstration, allowing funds to be used to quickly find housing for those who are homeless while also emphasizing the prevention of homelessness, something for which only a small portion of HUD funds has been used in the past. To date, the third category of funding—targeted Section 8 vouchers—has been used to serve homeless veterans, but the President’s FY2011 and FY2012 budgets have also proposed funding new vouchers to address the needs of both chronically homeless individuals and homeless families with children. The FY2011 Department of Defense and Full-Year Continuing Appropriations Act (P.L. 112-10) did not include funding for the proposed vouchers.

### **Rapid Re-Housing Demonstration Program**

Rapid re-housing is a process targeted to assist homeless families with dependent children that have one or more moderate barriers to achieving and maintaining permanent housing. Through supportive services to address these barriers, together with short-term housing assistance, the hope is that families will be able to maintain permanent housing. In the FY2008 Consolidated Appropriations Act (P.L. 110-161), Congress appropriated \$25 million for a Rapid Re-Housing Demonstration Program. HUD awarded the funds through a competitive process to 23 projects

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<sup>67</sup> FY2010 NOFA, pp. 16-17.

<sup>68</sup> *Ibid.*

<sup>69</sup> *Ibid.*

<sup>70</sup> *Ibid.*, pp. 34-36.

proposed by Continuums of Care for funding. The announcement of grant award recipients was made on February 19, 2009.<sup>71</sup>

Rapid Re-Housing grantees provide supportive services and transitional housing assistance to help families move to permanent housing as quickly as possible. Under the Rapid Re-Housing grant, service providers could fund transitional housing for one of two time periods, to be determined by the service provider at the time it assesses the needs of a given family. These two time periods were either 3-6 months or 12-15 months. Grantees could not use more than 30% of funds for supportive services.<sup>72</sup> Among the moderate barriers to achieving permanent housing that families had to face in order to be eligible for Rapid Re-Housing services were (1) temporary financial strain, (2) inadequate employment or loss of employment, (3) inadequate childcare resources, (4) an ability to overcome a low level of education or command of the English language, (5) legal problems that can be addressed by a service provider, (6) minimal mental health issues or prior substance use, and (7) poor rental and credit history.<sup>73</sup>

## **The Homelessness Prevention and Rapid Re-Housing Program**

Congress appropriated \$1.5 billion for a new Homelessness Prevention and Rapid Re-Housing Program (HPRP) as part of the American Recovery and Reinvestment Act (P.L. 111-5). The funds were distributed to states and local communities using the ESG program formula to determine allotments.<sup>74</sup> Although funds were distributed via the ESG formula, unlike the ESG program, where only 30% of funds could, at the time, be used for homelessness prevention activities, all funds are to be used for activities to prevent homelessness or to quickly find housing for those who have become homeless. In addition, because the amount of HPRP funds available greatly exceeded typical ESG appropriations, more cities and counties qualified for the minimum HPRP grant of \$500,000; under HPRP, 337 cities qualified for their own grant (compared to 203 that received FY2009 ESG allocations) and 148 urban counties qualified for their own HPRP grant (compared to 102 that received funds under the FY2009 ESG grants). As with ESG, grantee state and local governments may allocate funds to subgrantees that are agencies within government or private nonprofit organizations. Unlike ESG, there are no match requirements for HPRP funds. Grantees must expend at least 60% of funds within two years of the date that the funds were made available by HUD, and 100% of funds within three years.<sup>75</sup>

On March 19, 2009, HUD released a notice in which it detailed requirements for grantees and subgrantees.<sup>76</sup> Recipients may use funds to assist individuals and families who find themselves in two different sets of circumstances—those who, but for HPRP assistance, would become

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<sup>71</sup> U.S. Department of Housing and Urban Development, “Obama Administration Awards Nearly \$1.6 Billion in Homeless Grants to Thousands of Local Housing and Service Providers Nationwide,” press release, February 19, 2009, [http://portal.hud.gov/hudportal/HUD?src=/press/press\\_releases\\_media\\_advisories/2009/HUDNo.09-010](http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2009/HUDNo.09-010).

<sup>72</sup> Department of Housing and Urban Development, “Notice of Funding Availability, Continuum of Care Homeless Assistance,” *Federal Register*, vol. 73, no. 133, July 10, 2008, p. 39843.

<sup>73</sup> *Ibid.*, p. 39846.

<sup>74</sup> The list of HPRP recipients is available at <http://www.hud.gov/recovery/homeless-prevention.cfm>.

<sup>75</sup> For a report on grantee expenditures, see [http://www.hudhre.info/documents/HPRP\\_FinancialReport60PctReq\\_byState.pdf](http://www.hudhre.info/documents/HPRP_FinancialReport60PctReq_byState.pdf).

<sup>76</sup> U.S. Department of Housing and Urban Development, Notice of Allocations, Application Procedures, and Requirements for Homelessness Prevention and Rapid Re-Housing Program Grantees under the American Recovery and Reinvestment Act of 2009, March 19, 2009, <http://www.hud.gov/recovery/hrp-notice.pdf>.

homeless and those who currently meet HUD's definition of homelessness.<sup>77</sup> In both cases, those assisted should only require temporary assistance in order to find and retain housing, and must have incomes at or below 50% of area median income (considered very low income).<sup>78</sup> Funds may be used for short-term rental assistance (up to 3 months) or medium-term rental assistance (4-18 months), for security or utility deposits, utility payments, help with moving expenses, and hotel vouchers. Recipients may also use funds for activities to help families find and maintain housing such as help with housing searches, outreach to landlords, credit repair, and legal services. The notice explicitly states that funds may not be used for mortgage costs.<sup>79</sup>

In June 2011, HUD released data about how HPRP funds have been used as part of *The 2010 Annual Homeless Assessment Report to Congress*.<sup>80</sup> In the first year of the program (from implementation in September 2009 through September 2010), more than 690,000 people were served, the majority of whom—approximately 77%—received assistance with homelessness prevention.<sup>81</sup> The most commonly funded services were case management (received by 77% of households), rental assistance (58% of households), and security/utility deposits (22% of households).<sup>82</sup> Most recipients participated in HPRP for 30 days or fewer (44% of people), and 92% had exited the program within six months.<sup>83</sup> Nearly 93% reported that they would be living independently in permanent housing after leaving the program, compared to 66% of participants who lived in their own home or apartment on the night prior to program entry.<sup>84</sup> The report also contains information on participant demographics and incomes.

## **Housing Vouchers for Persons Who Are Homeless**

Another source of assistance for homeless individuals is targeted Section 8 vouchers. Vouchers are portable housing subsidies that eligible households (those with very low- and extremely low-incomes) can use to find rental housing in the private market.<sup>85</sup> During the four most recent fiscal years, FY2008 through FY2011, Congress has appropriated funds for Section 8 vouchers to be set aside for homeless veterans. In each year from FY2008 through FY2010, Congress appropriated \$75 million, an amount sufficient to fund approximately 10,000 vouchers in each year. In FY2011, Congress provided \$50 million for vouchers for homeless veterans. (For more information about these vouchers, see CRS Report RL34024, *Veterans and Homelessness*, by Libby Perl.)

In the FY2011 and FY2012 Administration budgets, the President proposed to fund additional Section 8 vouchers for two homeless populations: chronically homeless individuals and homeless families with children. In FY2011, the President requested a total of \$85 million to fund a set

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<sup>77</sup> Ibid., pp. 5-6.

<sup>78</sup> Ibid. p. 23.

<sup>79</sup> Ibid., p. 20.

<sup>80</sup> U.S. Department of Housing and Urban Development, *The 2010 Annual Homeless Assessment Report to Congress*, June 2011, <http://www.nytimes.com/2011/06/22/health/policy/22smoke.html>.

<sup>81</sup> Ibid., p. 57.

<sup>82</sup> Ibid., p. 64.

<sup>83</sup> Ibid., pp. 65-66.

<sup>84</sup> Ibid., pp. 60, 67.

<sup>85</sup> For more information about Section 8 vouchers, see CRS Report RL32284, *An Overview of the Section 8 Housing Programs: Housing Choice Vouchers and Project-Based Rental Assistance*, by Maggie McCarty.

aside of 4,000 vouchers for chronically homeless adults and 6,000 vouchers for families with children who are homeless or at risk of homelessness.<sup>86</sup> Congress did not appropriate funds for vouchers in FY2011.<sup>87</sup>

The President's FY2012 proposal is similar. It would create a demonstration program that would provide \$57 million to fund a total of 7,500 vouchers as follows:

- **Vouchers for Chronically Homeless Individuals with Disabling Conditions**—The Administration's proposal would make vouchers available to single homeless individuals considered chronically homeless and who are "enrolled in Medicaid through coverage expansion under 1115 waivers or state only initiatives."<sup>88</sup> Participants would receive medical care through Medicaid, and HUD would also partner with HHS to leverage assistance through the Substance Abuse and Mental Health Services Administration (SAMHSA). A number of studies have found that chronically homeless individuals who move into supportive housing reduce their reliance on, and the cost to, hospitals and nursing homes, among other services.<sup>89</sup>
- **Vouchers for Families with Children Who Are Homeless or At Risk of Homelessness**—In administering these vouchers, HUD would collaborate with HHS and the Department of Education (ED) to provide housing and services to families. ED would help identify students in families who might be in need of assistance, and PHAs would collaborate with local HHS-funded programs such as Temporary Assistance for Needy Families (TANF), child care services, Head Start, employment and training programs, health care, and substance abuse counseling to provide assistance to family members.

The proposal would require an evaluation of both programs to determine cost savings, replicability, and potential cost-sharing among federal agencies.

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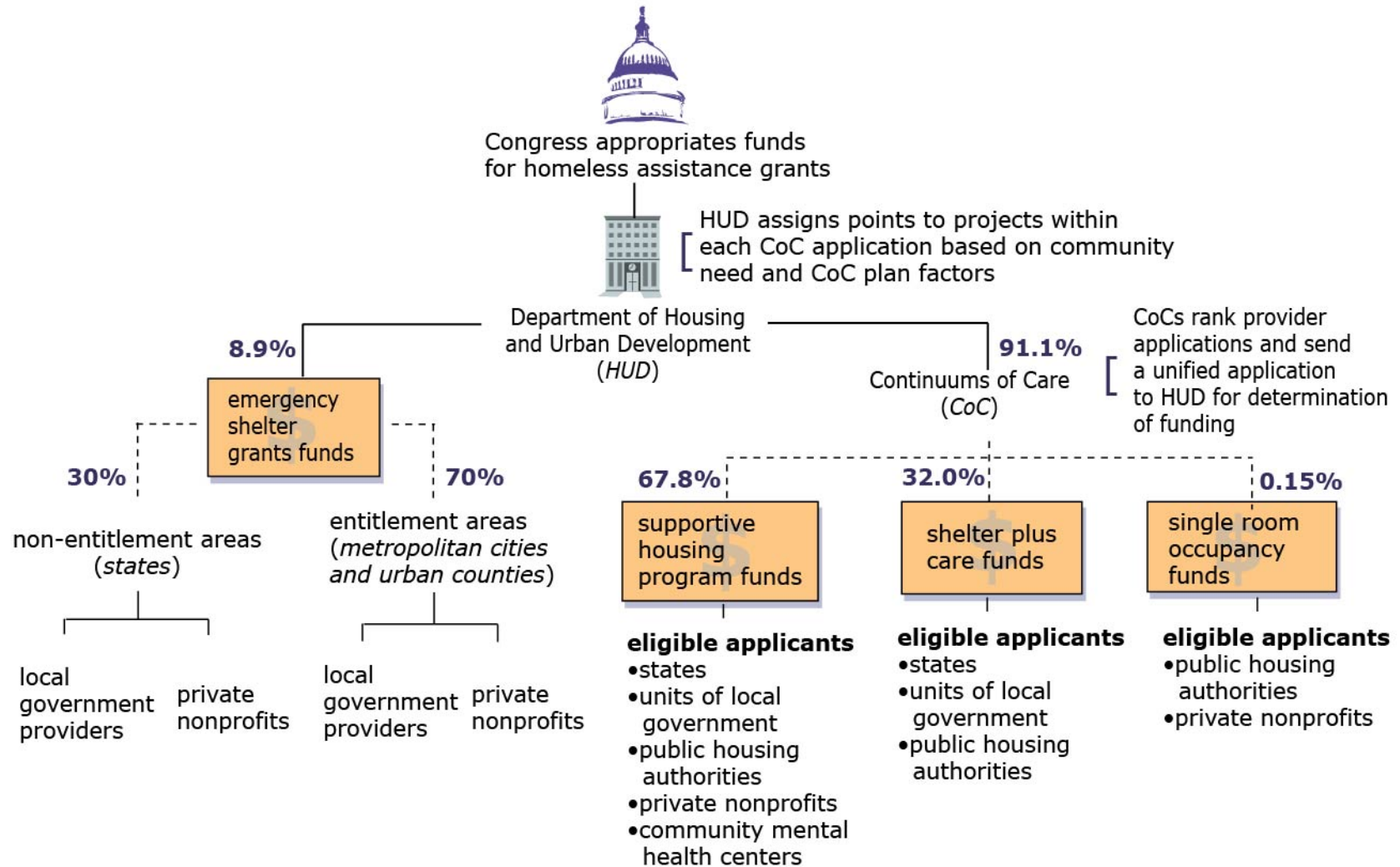
<sup>86</sup> U.S. Department of Housing and Urban Development, *FY2011 Budget Justifications for Tenant-Based Rental Assistance*, pp. J-21 to J-23, <http://hud.gov/offices/cfo/reports/2011/cjs/tenant-based-assistance2011.pdf>.

<sup>87</sup> Prior to enactment of P.L. 112-10, Department of Defense and Full-Year Continuing Appropriations Act, the FY2011 House-passed HUD appropriations bill (H.R. 5850) and the Senate Appropriations Committee-passed bill (S. 3644) would have provided \$85 million to fund the two voucher demonstration programs.

<sup>88</sup> U.S. Department of Housing and Urban Development, *FY2012 Budget Justifications for Tenant-Based Rental Assistance*, p. H-18, [http://portal.hud.gov/hudportal/documents/huddoc?id=Tenant\\_BR\\_Assis\\_2012.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=Tenant_BR_Assis_2012.pdf).

<sup>89</sup> See, for example, Dennis Culhane, Stephen Metraux, and Trevor Hadley, "Public Service Reductions Associated with Placement of Homeless Persons with Severe Mental Illness in Supportive Housing," *Housing Policy Debate*, vol. 13, no. 1 (2002), pp. 107-163; Mary E. Larimer, Daniel K. Malone, and Michelle D. Garner et al., "Health Care and Public Service Use and Costs Before and After Provision of Housing for Chronically Homeless Persons with Severe Alcohol Problems," *Journal of the American Medical Association*, vol. 301, no. 13 (April 1, 2009), pp. 1349-1357; and Tia E. Martinez and Martha R. Burt, "Impact of Permanent Supportive Housing on the Use of Acute Care Health Services by Homeless Adults," *Psychiatric Services*, vol. 57, no. 7 (July 2006), pp. 992-999.

**Figure I. Distribution of the HUD Homeless Assistance Grants**



**Source:** Chart prepared by CRS on the basis of 42 U.S.C. § 11373 and the FY2010 HUD NOFA. Percentages are based on the FY2010 distribution of the Homeless Assistance Grants.



## **Reauthorization of the McKinney-Vento Homeless Assistance Grants**

On April 2, 2009, identical versions of bills to reauthorize the McKinney-Vento Homeless Assistance Grants were introduced in both the House and Senate. The two bills, H.R. 1877 and S. 808, were both entitled the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act. On May 6, 2009, Senator Reed, the sponsor of S. 808, proposed adding the bill as an amendment to S. 896, the Helping Families Save Their Homes Act, which was being considered by the full Senate.<sup>90</sup> Senator Reed's amendment was approved, and later that same day the Senate approved S. 896. The House approved S. 896 on May 19, 2009, and, due to small differences between the House- and Senate-passed versions, the Senate approved the House-passed measure that same day. On May 20, 2009, the President signed the bill into law as P.L. 111-22. Prior to this, the Homeless Assistance Grants had not been reauthorized since 1992 (P.L. 102-550). The changes in the HEARTH Act technically became effective as of November 20, 2010 (the law specified that provisions would take effect at the earlier of 18 months after enactment or three months from the date on which HUD publishes final regulations). However, HUD has stated that until new regulations become effective, the current regulations governing the Homeless Assistance Grants, including the definition of homelessness, continue in place.

The changes in P.L. 111-22 will have repercussions for the makeup of the Homeless Assistance Grants (the three competitive grants will be consolidated into one grant), the way in which funds are distributed to grantees, the purposes for which grantees may use funds, and the determination of who may be served under the law. This section describes the major changes that the HEARTH Act makes to the Homeless Assistance Grants.

### **Consolidation of the Competitive Homeless Assistance Grants**

The HEARTH Act removes the distinctions among the three competitive Homeless Assistance Grants and replaces them with one consolidated grant program called the "Continuum of Care Program." Applicants will no longer apply for one of the three existing grants—S+C, SHP, or SRO—based on the type of housing and services they want to provide. Instead, the new consolidated grant will provide funds for all permanent housing, transitional housing, supportive services, and re-housing activities.

In consolidating the competitive grants, the HEARTH Act will maintain some aspects of the current Continuum of Care application system and will codify the system in law (currently much of the application system has been established through the grant funding process). Under P.L. 111-22, HUD will review applications from Collaborative Applicants—local entities that will determine funding priorities and jointly submit a single application to HUD on behalf of all local applicant organizations (much like the existing Continuum of Care). Currently, although CoCs submit one application to HUD, the Department must still review the individual project applications from organizations seeking funding. This change from separate project applications to a single Collaborative Applicant application will mean the difference between HUD reviewing

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<sup>90</sup> See S.Amdt. 1040.

hundreds rather than thousands of applications.<sup>91</sup> Collaborative Applicants may also choose to apply to HUD to be “Unified Funding Agencies;” the Unified Funding Agencies will have authority to receive grant awards directly from HUD and distribute them to individual awardee organizations. Otherwise, HUD will continue using its current practice of distributing funds directly to individual project applicants.

P.L. 111-22 will also require certain set-asides within the Continuum of Care Program to provide housing for homeless populations.

- At least 30% of funds (not including those for permanent housing renewals) must be used to provide permanent supportive housing to individuals with disabilities or families with an adult head of household (or youth in the absence of an adult) who has a disability. This requirement will be reduced proportionately as communities increase permanent housing units for those individuals and families, and will end when HUD determines that a total of 150,000 permanent housing units had been provided for homeless persons with disabilities since 2001.
- At least 10% of funds must be used to provide permanent housing for families with children.

Collaborative Applicants that are successful in reducing or eliminating homelessness through permanent housing will receive bonuses that they can use for any eligible activity under the Continuum of Care Program as well as homelessness prevention activities.

P.L. 111-22 also institutes a new program to allow certain high-performing communities to have greater flexibility in the way that they use their funds. To be designated high-performing, a Collaborative Applicant will have to meet requirements regarding the average length of homelessness in their communities, repeat instances of homelessness, community involvement and outreach activities, effectiveness in reducing homelessness, and success in achieving independent living among homeless families with children and youth. Collaborative Applicants designated “high performing” will be able to use their grant awards for any eligible activity under the Continuum of Care Program, as well as for homelessness prevention activities.

Regarding the pro rata need process currently used to determine how funds are distributed to communities (which uses the CDBG formula, in part, to determine need), the HEARTH Act requires HUD to create a new formula for determining need within two years of the bill’s enactment using “factors that are appropriate to allocate funds to meet the goals and objectives of” the Continuum of Care program. P.L. 111-22 gives the HUD Secretary the authority to adjust the formula to ensure that Collaborative Applicants have sufficient funds to renew existing contracts for one year.

The HEARTH Act authorized the Continuum of Care Program, together with the Emergency Solutions Grants Program (described below) at \$2.2 billion in FY2010 and such sums as necessary for FY2011. P.L. 111-22 provides that renewals of permanent housing contracts may be funded through either the Homeless Assistance Grants account or the project-based Section 8 account.

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<sup>91</sup> The HEARTH Act also allows individual organizations to apply directly to HUD for funds if they are not reasonably permitted to participate as part of the collaborative application process.

## Definition of “Homeless Individual” and “Chronically Homeless Person”

The HEARTH Act expands the definition of “homeless individual” that was codified in the McKinney-Vento Homeless Assistance Act when the law was originally enacted.<sup>92</sup> Under the original law, a homeless individual was defined as an individual who lacks a fixed, regular, and adequate nighttime residence and who resides in a temporary shelter (including welfare hotels, congregate shelter, and transitional housing for those with mental illnesses), resides in an institution as a temporary residence, or a in place not designed for human habitation. This definition was sometimes described as requiring one to be literally homeless in order to meet its requirements<sup>93</sup>—either living in emergency accommodations or having no place to stay. The HEARTH Act maintains this portion of the definition, but also broadens the McKinney-Vento Act definition, moving away from the requirement for literal homelessness.

- **Transitional Housing:** The HEARTH Act amends the current definition of homeless individual to include all those persons living in transitional housing, not just those residing in transitional housing for the mentally ill as in prior law.
- **Hotel/Motel:** The new law also includes in the definition persons living in hotels or motels paid for by a government entity.
- **Imminent Loss of Housing:** P.L. 111-22 adds to the current definition those individuals and families who meet all of the following criteria. (1) They will “imminently lose their housing,” whether it be their own housing, housing they are sharing with others, or a hotel or motel not paid for by a government entity. Imminent loss of housing is evidenced by an eviction requiring an individual or family to leave their housing within 14 days; a lack of resources that would allow an individual or family to remain in a hotel or motel for more than 14 days; or credible evidence that an individual or family would not be able to stay with another homeowner or renter for more than 14 days. (2) They have no subsequent residence identified. (3) They lack the resources needed to obtain other permanent housing. (HUD practice prior to passage of the HEARTH Act was to consider those individuals and families who would imminently lose housing within seven days to be homeless.)
- **Domestic Violence:** Another change to the definition of homeless individual is that the HEARTH Act considers homeless anyone who is fleeing a situation of domestic violence or other life-threatening condition.
- **Other Federal Definitions:** In addition, P.L. 111-22 adds to the definition of homeless individual unaccompanied youth and homeless families with children who are defined as homeless under other federal statutes and who (1) have experienced a long-term period without living independently in permanent housing; (2) have experienced instability as evidenced by frequent moves; and (3) can be expected to continue in unstable housing due to factors such as chronic disabilities, chronic physical health or mental health conditions, substance

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<sup>92</sup> 42 U.S.C. § 11302.

<sup>93</sup> See, for example, the Department of Housing and Urban Development, *The Third Annual Homeless Assessment Report to Congress*, July 2008, p. 2, footnote 5, <http://www.hudhre.info/documents/3rdHomelessAssessmentReport.pdf>.

addiction, histories of domestic violence or childhood abuse, the presence of a child or youth with a disability, or multiple barriers to employment. In general, however, Collaborative Applicants will not be able to use more than 10% of grant funds to serve those individuals and families defined as homeless under other federal statutes.

P.L. 111-22 also expands the current definition of “chronically homeless person,” which is defined in regulation.<sup>94</sup> Under the regulation, the term had been defined as an *unaccompanied individual* who has been homeless continuously for one year or on four or more occasions in the last three years, and who has a disability. The HEARTH Act adds to the definition those homeless *families* with an adult head of household (or youth where no adult is present) who has a disability. The definition of disability specifically includes post traumatic stress disorder and traumatic brain injury. Note, however, that to be considered chronically homeless, an individual or family has to be living in a place not meant for human habitation, a safe haven, or an emergency shelter; the HEARTH Act’s proposed changes to the definition of “homeless individual” do not apply to chronic homelessness. In addition, a person released from an institution will be considered chronically homeless as long as, prior to entering the institution, they otherwise met the definition of chronically homeless person, and had been institutionalized for fewer than 90 days.

On April 20, 2010, HUD published a proposed rule to clarify the changed definition in the HEARTH Act; the comment period ended on June 21, 2010.<sup>95</sup>

## Homelessness Prevention

The HEARTH Act also expands the opportunities for grantees to engage in homelessness prevention activities. Currently, only ESG funds may be used for homelessness prevention activities such as payment of rent or utility bills, limited to 30% of a state’s or a community’s allocation. P.L. 111-22 expands the eligible activities and funding level of the Emergency Shelter Grants Program and renames it the “Emergency Solutions Grants Program.” The new law allocates 20% of funds made available by Congress for the Homeless Assistance Grants to the newly-named program (currently somewhere between 10% and 15% of funds are reserved for the ESG program). P.L. 111-22 expands the list of supportive services that can be provided with ESG program funds from those concerned with “employment, health, drug abuse, or education,” to include family support services for homeless youth, victim services, and mental health services.

The new ESG program also allows funds to be used for short- or medium-term rental assistance and housing relocation and stabilization services for individuals and families at risk of homelessness. The bill defines the term “at risk of homelessness” to include an individual or family with income at or below 30% of area median income, who has insufficient income to attain housing stability, who has moved frequently for economic reasons, and who lives in unstable housing (examples of unstable housing are enumerated in the law). The term also includes all individuals and families defined as homeless under other federal statutes as “at risk.” Under the updated ESG program in the HEARTH Act, the amount of funds that grant recipients can use for emergency shelter and related supportive services are limited, thereby requiring that a portion of funds be used for rental assistance and services for those at risk of homelessness.

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<sup>94</sup> 24 C.F.R. § 91.5.

<sup>95</sup> U.S. Department of Housing and Urban Development, “Homeless Emergency Assistance and Rapid Transition to Housing: Defining “Homeless,”” *75 Federal Register* 20541-20546, April 20, 2010.

Specifically, recipients cannot use more than the greater of 60% of their ESG allocation, or the amount they had used prior to enactment of the HEARTH Act, for emergency shelter and related services.

## **Rural Homelessness**

In the area of rural homelessness, the HEARTH Act retains portions of McKinney-Vento's rural homelessness grant program (Title IV, Subtitle G of McKinney-Vento), a program that has not been funded, as the Rural Housing Stability Assistance Program. The program reserves not less than 5% of Continuum of Care Program funds for rural communities to apply separately for funds that would otherwise be awarded as part of the Continuum of Care Program. Unlike the Continuum of Care program, rural communities will be able to serve persons who do not necessarily meet HUD's definition of "homeless individual." P.L. 111-22 provides that HUD may award grants to rural communities to be used for (1) re-housing or improving the housing situation of those who are homeless or are in the worst housing situations in their geographic area, (2) stabilizing the housing situation of those in imminent danger of losing housing, and (3) improving the ability of the lowest-income residents in the community to afford stable housing. The HEARTH Act adds to the list of eligible activities under the rural grants the construction or rehabilitation of transitional or permanent housing as well as the leasing of property or payment of rental assistance for these purposes.

## **Other Issues Regarding the Homeless Assistance Grants**

Despite the enactment of McKinney-Vento reauthorization legislation, there are other factors involved in the distribution of the Homeless Assistance Grants that may continue to be issues of concern to those interested in how funds are allocated. An ongoing concern has been the amount of funds required to renew existing housing and services contracts, leaving a relatively small share of funding to support new projects. Another issue is the way in which the CDBG formula affects the distribution of the Homeless Assistance Grants. While enactment of the HEARTH Act may mean that the CDBG formula will not be used in the distribution of competitive funds in the future, the CDBG formula will continue to be used to distribute ESG funds.

## **Renewals of the Competitive Homeless Assistance Grants**

In recent years Congress has shown some concern about the cost of renewing existing permanent supportive housing contracts through the S+C and SHP programs, while also funding new permanent housing units.<sup>96</sup> Currently a large percentage of competitive Homeless Assistance Grant funds are used to renew existing SHP and S+C contracts. For example, in FY2009 nearly 87% of competitive grant funds were used to renew existing contracts. (For the percentage

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<sup>96</sup> In order to better anticipate the need for renewal funds, beginning in FY2002, Congress asked HUD to estimate five-year projections for renewing SHP and S+C contracts. Conference Report to accompany H.R. 2620, *Department of Veterans' Affairs, Housing and Urban Development, and Independent Agencies Appropriation Act*, 107<sup>th</sup> Cong., 1<sup>st</sup> sess., November 6, 2001, H.Rept. 107-272. HUD has provided these estimates in its Congressional Budget Justifications for FY2003, and from FY2006 through the present.

allocation of the FY2010 competitive grants, see **Figure 2**.) In its FY2012 budget, HUD estimated that approximately \$1.8 billion would be needed to renew existing S+C and SHP contracts in FY2011<sup>97</sup> (nearly the entire amount appropriated for the Homeless Assistance Grants).

HUD has changed the way it calculates pro rata need in order to help CoCs to free up funds for new permanent housing projects. Beginning with the FY2005 competition for available funds, HUD enabled CoCs to eliminate funding for existing SHP projects from their priority lists while still qualifying for the hold harmless level of pro rata need funds that would have been required to renew those SHP projects. This enabled the funds that otherwise would have been directed toward renewals to be used to create new permanent housing projects.<sup>98</sup> Although this allowed CoCs to defund projects that they did not think should receive grants, it did not address what CoCs can do about renewing projects they think are worth funding while also funding projects that would create new housing. HUD allowed this reallocation of funds through the FY2008 competition and again in FY2010.

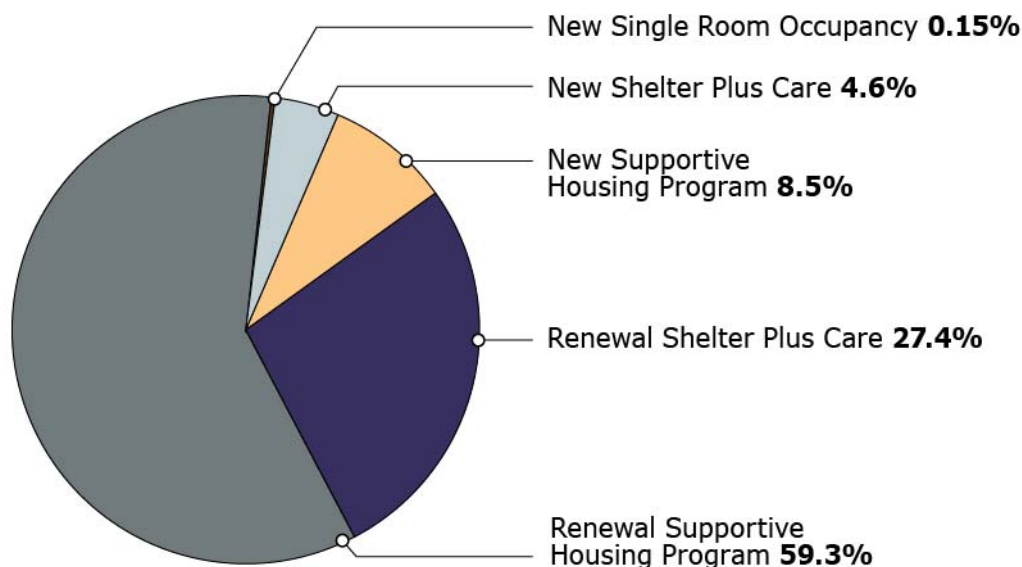
The HEARTH Act also introduced a way in which Homeless Assistance Grant funds could be freed up for new projects. Under the new law, renewals of permanent housing rental assistance and operating cost contracts could be funded from the Section 8 project-based rental assistance account. This assumes that appropriations for the Homeless Assistance Grants would remain at similar levels despite transfer of the renewals to another account.

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<sup>97</sup> U.S. Department of Housing and Urban Development, *FY2012 Congressional Budget Justifications for Homeless Assistance Grants*, p. Y-11, [http://portal.hud.gov/hudportal/documents/huddoc?id=Homeless\\_Assis\\_Grants\\_2012.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=Homeless_Assis_Grants_2012.pdf).

<sup>98</sup> U.S. Department of Housing and Urban Development, "Notice of Funding Availability, Continuum of Care Homeless Assistance," *Federal Register*, vol. 70, no. 53, March 21, 2005, pp. 14283-14284.

**Figure 2. FY2010 Percentage Allocation of Competitive Grants**



**Source:** CRS analysis of HUD FY2010 grant announcements, available at [http://portal.hud.gov/hudportal/documents/huddoc?id=press\\_report2010.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=press_report2010.pdf), and [http://www.hud.gov/offices/cpd/homeless/budget/2010/10\\_all\\_grants.pdf](http://www.hud.gov/offices/cpd/homeless/budget/2010/10_all_grants.pdf).

## The Role of the Community Development Block Grant Formula

The Community Development Block Grant (CDBG) formula has determined how ESG funds are distributed since the inception of the program in 1986, and has been used in the distribution of the competitive grants since at least FY1995. The effectiveness of using the CDBG formula to target funds to services for homeless persons has been questioned at various times. Two General Accounting Office (now Government Accountability Office) reports from the late 1980s noted that the CDBG formula might not be the best way to target funds to areas that most need homeless assistance funds.<sup>99</sup> Congress, too, has questioned the relationship between the formula and homelessness. In FY2001, the Senate Appropriations Committee noted that “the CDBG formula has no real nexus to homeless needs,” and urged HUD to hasten its development of a method for counting homeless individuals.<sup>100</sup> HUD responded with a report that proposed alternative methods for determining community need for homeless assistance.<sup>101</sup>

The newly-enacted HEARTH Act (P.L. 111-22) responded to these concerns, in part by directing HUD to develop a formula for determining need for the competitive Continuum of Care Program within two years of the law’s enactment. As discussed earlier in this report, the competitive

<sup>99</sup> U.S. General Accounting Office, *Homelessness: Implementation of Food and Shelter Programs Under the McKinney Act*. GAO/RCED-88-63. December 1987, p. 33, <http://archive.gao.gov/d29t5/134578.pdf>, and *Homelessness: HUD’s and FEMA’s Progress in Implementing the McKinney Act*. GAO/RCED-89-50. May 1989, pp. 46-48, <http://archive.gao.gov/d25t7/138597.pdf>.

<sup>100</sup> S.Rept. 106-410. The statement was made regarding the competitive Homeless Assistance Grants.

<sup>101</sup> U.S. Department of Housing and Urban Development. Office of Community Planning and Development. *Report to Congress: Measuring “Need” for HUD’s McKinney-Vento Homeless Competitive Grants*, 2001.

Homeless Assistance Grants currently use the CDBG formula to determine a community's need for funds. However, the competitive grants will continue to use the CDBG formula until HUD implements a new formula, and the HEARTH Act does not change the use of the CDBG formula to distribute ESG funds.

The CDBG formula has also been questioned as the best way of targeting funds for its intended purpose—community development—and changing the formula has been the subject of discussion for a number of years. The current formula factors used to distribute funds are: population, the number of persons in poverty, housing overcrowding (homes in which there are more than 1.01 persons per room), the age of housing (the number of housing structures built prior to 1940), and the extent of growth lag in a given community (the lack of population growth in a community compared to the growth rate it would have had if it had grown at the rate of other communities).<sup>102</sup> In 2005, HUD released a report in which it examined the effectiveness of the CDBG formula in targeting communities that are in need of development. Among the report's criticisms of the formula was that the use of the population variable means that some fast-growing communities with low development needs may still receive increasing CDBG grants.<sup>103</sup> Another criticism was that the poverty variable may provide college towns with a disproportionate share of funds by counting college students as living in poverty.<sup>104</sup> A third potential problem with the formula the report noted was that the age of housing and growth lag factors do not necessarily reflect communities' needs for development. In some communities, housing built prior to 1940 has been rehabilitated and gentrified, while in others it has been torn down or subject to neglect.<sup>105</sup> As a result, some communities with refurbished pre-1940s housing may qualify for more CDBG funds than deteriorating communities that have demolished their older housing.

The 2005 HUD report also proposed alternative factors for the CDBG formula.<sup>106</sup> Among these was a formula that would not require a split of funds between entitlement communities (which currently receive 70% of funds) and non-entitlement communities (which receive 30% of funds) and would use the following factors:

- the number of people in poverty, excluding college students;
- housing that is 50 years old or older and occupied by a household in poverty;
- female-headed households with children under the age of 18; and
- overcrowding.

The President's FY2010 budget proposed to change the CDBG formula and replace it with this HUD-proposed formula.<sup>107</sup> The budget proposed that the CDBG formula be modernized to "better target funds to communities with the greatest economic need," and noted that any new formula would include hold-harmless provisions to allow transition time for communities that

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<sup>102</sup> 42 U.S.C. § 5306.

<sup>103</sup> Todd Richardson, *CDBG Formula Targeting to Community Development Need*, U.S. Department of Housing and Urban Development, February 2005, p. 46, <http://www.huduser.org/Publications/pdf/CDBGAssess.pdf>.

<sup>104</sup> *Ibid.*, p. 47.

<sup>105</sup> *Ibid.*, pp. 48-50.

<sup>106</sup> *Ibid.*, pp. 61-84.

<sup>107</sup> *FY2010 HUD Budget Justifications*, p. Q-10.



might receive a lower share of total funds to adjust to the revised allocations. The recommendations were not taken up by Congress.

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