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Devolution of the Small Cities CDBG Program in Mississippi

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In 1982 responsibility for HUD's Small Cities Community Development Block Grant program was transferred to state governments as part of President Reagan's New Federalism initiatives. Devolution was designed to (1) implement a new vision of American federalism, (2) shift control over a significant source of financial resources for nonmetropolitan areas, and (3) end the bypassing of state government officials in community development decisionmaking. This article uses the eleven year (1975-1985) history of Small Cities CDBG awards in Mississippi to assess the consequences of the program's devolution. Changes in the pattern of state CDBG awards indicate that the program's devolution produced a policy redirection that channeled CDBG funds to a larger number of the smallest municipalities and permitted more local discretion in project design. As a result, HUD no longer dictated community development policy to small cities. Instead, community development priorities in Mississippi emerged out of an award process that involved interaction among state and local officials.

In 1982 state governments were given the opportunity to assume responsibility for the Department of Housing and Urban Development's (HUD) Small Cities Community Development Block Grant program (CDBG). As authorized by the 1981 Omnibus Budget Reconciliation Act, state officials, not federal personnel, were permitted to devise their own procedures for awarding federal dollars to community development projects in their respective states. This intergovernmental transfer of program control was part of President Reagan's plan to create a new set of federal-state relationships.¹ Of the nine block grants created or revised by the 1981 Budget Act,² only the Small Cities CDBG program had been a solely national-to-local grant. That is, for CDBG's first seven years (1975-1981), state governments were bypassed in the award process. State governments already had considerable experience and influence, however, with the other eight block grants. Because of this radical departure from past practice, the Small Cities program has been labeled as "the truest test of state administrative innovation and changing governmental relations under the block grant component of the Reagan 'New Federalism'."³

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¹Deil S. Wright, "New Federalism: Recent Varieties of an Older Species," *American Review of Public Administration* 16 (Spring 1982): 56-74.

²The nine block grants were in the areas of health (4), social services (3), education (1), and community development (1).

³Jerry Fensterman, Susan Szaniszlo, and Carl Stenberg, "Coping with Cutbacks: States, Localities 'Made Do' in 1982," *Intergovernmental Perspective* 8/9 (Winter 1983): 33.

Reagan's vision of intergovernmental relations presumed that "devolution of responsibilities to governments closer to the people" would yield policy choices that differed from those made by national government agencies in charge of grants-in-aid.⁴ The debate over the devolution of the Small Cities program revolved around several questions about state governments and their role in program implementation and the impact of a devolved program on eligible jurisdictions. For example, did the states possess sufficient managerial capacity to operate the Small Cities program effectively? Would state administration be responsive to local priorities, and would program procedures be suited to the capabilities of small cities? Would devolution maintain national policy objectives and standards, especially the federal government's commitment to the low- and moderate-income (LMI) beneficiaries targeted by the HUD award process? Would program outcomes differ from what they had been under HUD management?

SMALL CITIES AND FEDERAL COMMUNITY DEVELOPMENT PROGRAMS

The Small Cities program is the non-entitlement portion of the larger Community Development Block Grant established in Title I of the 1974 Housing and Community Development Act (HCDA).⁵ From its beginnings in the Housing Act of 1949, the scope of the national government's commitment to community development was expanded significantly, first, by the 1954 Urban Renewal program and, second, by the 1966 Model Cities program.⁶ Presidents Nixon and Ford, in their opposition to what they regarded as a centralizing trend,⁷ supported passage of the 1974 HCDA, which consolidated seven categorical grants operated by HUD into a single communi-

⁴George E. Peterson, "Federalism and the States: An Experiment in Decentralization," *The Reagan Record: An Assessment of America's Changing Domestic Priorities*, eds. John L. Palmer and Isabel V. Sawhill (Cambridge, Mass.: Ballinger Publishing, 1984), pp. 217-259.

⁵U.S. Department of Housing and Urban Development, *Programs of HUD*, HUD-214-10-PA (Washington, D.C.: May 1985), pp. 8-9.

⁶To review the evolution of national community development policy, see the following: Walter Williams, *Government by Agency: Lessons from the Social Program Grants-in-Aid Experience* (New York: Academic Press, 1980) and Bernard J. Frieden and Marshall Kaplan, *The Politics of Neglect: Urban Aid from Model Cities to Revenue Sharing* (Cambridge, Mass.: MIT Press, 1975).

⁷Three administrative procedures attempted between 1968 and 1972 with the aim of reforming the Model Cities and other community development programs were (1) Neighborhood Development Programs (NDPs), (2) Annual Arrangement (AA) provisions, and (3) Planned Variations (PVs). The three reforms shared the common goals of a reduction of federal intrusion into local projects and an expansion of local officials' discretion in project design. However, these administrative procedures failed to eliminate the increasing number of complaints by local government officials that excessive categorization and proliferation of federal community development programs produced both confusion among the varying requirements of the different grants-in-aid and unnecessary national intrusion into local affairs. Their importance derives from their role as precursors to CDBG and their failure to create a sufficient "no-strings" environment for HUD programs. See Williams, *Government by Agency*, pp. 39-40, for a more detailed discussion of these reforms.

ty development program.⁸ The Nixon-Ford decentralist strategy assumed that this amalgamation of separate community development categorical grants into a “block” of money would give local authorities a greater degree of discretion and selection among eligible activities and projects than did the previous hodgepodge of categorical grants. This assumption was confirmed as CDBG grew to be the largest and most popular of the original New Federalism block grants.⁹

Congress mandated seven national objectives for the new block grant. The “most important (and controversial)” objective was the requirement that CDBG monies be spent to assist primarily “persons of low and moderate income.”¹⁰ HUD operationalized these multiple goals into a “needs” formula that was used to compute the annual entitlements made to cities of at least 50,000 population and to urban counties.¹¹

Small cities and rural areas had not been the main targets of federal community development policy during its twenty-five year evolution (1949–1974) prior to HCDA’s passage.¹² Nor were smaller jurisdictions the intended targets of the 1974 CDBG program. They were included in HCDA by the congressional subcommittees on housing in order to bolster support for the block grant program.¹³ Congress set aside approximately 20 percent of the available CDBG funds for a “discretionary” pool of money (see PL 95-128, Sec. 106) to provide grants awarded by HUD on a competitive basis to the nation’s smaller governments (i.e., with populations under 50,000). More than 33,000 small general-purpose governments eligible for CDBG funding thus were required to vie with one another for the “discretionary” awards.¹⁴ By forcing smaller jurisdictions into a nationwide competition for CDBG money, Congress denied smaller cities and rural areas the annual entitlements made available to larger communities and also placed the smaller cities in

⁸The seven categorical grants folded into the 1974 CDBG program were (1) Urban Renewal, (2) Model Cities, (3) Sec. 702 Water and Sewer, (4) Sec. 703 Neighborhood Facilities, (5) Title II Public Facilities, (6) Title IV Open Spaces Land, and (7) Sec. 312 Housing Rehabilitation. (U.S. Advisory Commission on Intergovernmental Relations, *Community Development: The Workings of a Federal-Local Block Grant A-57* (Washington, D.C.: U.S. Government Printing Office, March 1977), pp. 12–14.)

⁹Parris N. Glendening and Mavis Mann Reeves, *Pragmatic Federalism* (2nd ed.; Pacific Palisades, Cal.: Palisades Publishers, 1984), p. 244.

¹⁰Michael Reagan and John Sanzone, *The New Federalism* (2nd ed.; New York: Oxford University Press, 1981), p. 141. For a complete text of CDBG’s national objectives, see Richard P. Nathan et al., *Block Grants For Community Development* (Washington, D.C.: U.S. Department of Housing and Urban Development, January 1977), p. 53.

¹¹HUD’s formula included three elements: population, housing overcrowding, and the extent of poverty (which was given double weight in the formula). The 1977 HCDA Amendments substituted age of housing stock (i.e., percentage built prior to 1940) for housing overcrowding. U.S. ACIR, *Community Development*, p. 18. Also see Paul R. Dommel, “Social Targeting in Community Development,” *Political Science Quarterly* 95 (Fall 1980): 465–478.

¹²George Hale and Marian Lief Palley, *The Politics of Federal Grants* (Washington, D.C.: Congressional Quarterly Press, 1981), p. 148.

¹³A detailed legislative history of the 1974 Housing and Community Development Act can be found in U.S. ACIR, *Community Development*, pp. 3–33.

¹⁴Nathan et al., *Block Grants for Community Development*, p. 84.

the position of adapting local community development goals to the award criteria established by HUD.

Although only 959 nonmetropolitan jurisdictions applied for the discretionary money in the first year,¹⁵ the number of applications rapidly increased in subsequent years. HUD developed a Project Selection System (PSS) to sort out the increasing number of applications.¹⁶ Success for a given small city did not come easy, as evidenced by the 37.2 percent success rate (357 awards out of 959 applications) in FY 1975.¹⁷ HUD used its authority over the discretionary funds for small cities to push localities in the direction of housing rehabilitation.¹⁸ Small cities that applied for CDBG dollars quickly discovered that they would be successful only if they listed housing rehabilitation as their top priority.¹⁹

HUD's treatment of small cities and rural areas led to a series of well founded complaints. For example, two separate studies of HUD's administration of the Small Cities CDBG program confirmed the allegation that awards within the nonmetropolitan category usually went to the relatively larger jurisdictions, while the smallest cities (e.g., under 5,000 population), where "need" often was most acute, lost out in the national competition for project funds.²⁰ Not only did these findings demonstrate that the smallest jurisdictions were at a disadvantage in the "grant game," but the results also confirmed the contention that HUD concentrated Small Cities projects in the relatively larger small cities that were more likely to possess the management capacity to operate the comprehensive slum removal projects preferred by HUD.²¹

Out of these complaints emerged a Carter administration project that later was adopted as part of Reagan's New Federalism proposals. Through the late 1970s the Council of State Community Affairs Agencies (COSCAA) lobbied HUD to test the feasibility of state government management of CDBG's

¹⁵Small cities which had ongoing urban renewal projects received CDBG funds under HCDA's "hold harmless" provision. The 1977 Amendments to the act terminated this provision. U.S. Department of Housing and Urban Development, *Community Development Block Grant Program: First Annual Report* (Washington, D.C.: December 1975), p. 62.

¹⁶The Project Selection System combined three components: (1) the degree to which the proposed project directly met the criteria established by HCDA, (2) the degree to which LMI persons were to be benefited, and (3) the consistency of the proposed project with local and statewide plans. See B. J. Reed and Roy Green, "Getting From Nation to States," *From Nation To States: The Small Cities Community Development Block Grant Program*, eds. Edward T. Jennings, Jr., Dale Krane, Alex Pattakos, and B. J. Reed (Albany: State University of New York Press, 1986), pp. 23-43.

¹⁷U.S. ACIR, *Community Development*, p. 46.

¹⁸Walter Williams argues that "HUD was determined to integrate its community development and housing programs into one grant." See Williams, *Government by Agency*, p. 105.

¹⁹*Ibid.*

²⁰William Giles, Gerald Gabris, and Dale Krane, "Dynamics in Rural Policy Development: The Uniqueness of County Government," *Public Administration Review* 40 (January/February 1980): 24-28 and Urban Services Research and Engineering, *An Evaluation of the Small Cities Program* (Washington, D.C.: HUD Internal Report, September 1981).

²¹Hale and Palley, *The Politics of Federal Grants*, pp. 147-154.

Small Cities component.²² COSCAA, along with the National Governors' Association (NGA), argued that the states were no longer the antiquated and unresponsive governments that had forced municipalities to seek direct federal assistance. HUD selected Kentucky and Wisconsin for a 1980 "demonstration project" to test the idea of state government administration of the Small Cities program.²³ A HUD-sponsored evaluation of the experiment found that officials in 58 percent of Kentucky localities and in 70 percent of Wisconsin localities preferred state management over HUD management.²⁴ The Reagan administration immediately touted the demonstration project as evidence that states could take over many federal assistance programs.²⁵

The transfer of the Small Cities program to state management fit neatly into Reagan's New Federalism initiatives and was included in the 1981 Budget Act. State administration of the Small Cities program drew sharp but futile opposition from interest groups that sought to continue the direct linkage between Washington, D.C. and the local jurisdictions. The National League of Cities (NLC) worried about the states' management capacity and about a possible rebirth of traditional state-municipality rivalry over local development programs. Citizens groups, such as Rural America, believed that the transfer proposal would diminish the social targeting of CDBG funds to LMI beneficiaries.²⁶

The 1981 act raised the percentage of CDBG funds set aside for eligible nonmetropolitan cities and counties from 20 percent to 30 percent. Compared to the \$926 million for FY 1981, \$1.019 billion (one of the few nondefense increases in the 1981 act) was appropriated for Small Cities CDBG in FY 1982.²⁷ The act also specified that states electing to administer the program must "buy-in" by making a 10 percent cash or in-kind match and must prepare statements of community development objectives and fund uses.²⁸ Thirty-six states and Puerto Rico "bought-in" to state administration in FY 1982, and in FY 1983 ten more states assumed control of the Small Cities program.²⁹

²²Arnold M. Howitt, *Managing Federalism: Studies in Intergovernmental Relations* (Washington, D.C.: Congressional Quarterly Press, 1984), pp. 71-76.

²³Reed and Green, "Getting From Nation to States."

²⁴U.S. Department of Housing and Urban Development, *Interim Report: Two State CDBG Small Cities Demonstrations* (Washington, D.C.: May 1981), memo; *Second Interim Report: Wisconsin State Demonstration* (Washington, D.C.: July 1981), memo.

²⁵Reed and Green, "Getting From Nation to States."

²⁶B. J. Reed and Roy Green, "Serendipity: 1981 Budget Reconciliation Act and the Small Cities Community Development Block Grant Program" (Paper presented at the annual meeting of the Southern Political Science Association, Atlanta, 28-30 October 1982).

²⁷U.S. General Accounting Office, *States Are Making Good Progress In Implementing The Small Cities Community Development Block Grant Program* (Washington, D.C.: GAO/RCED-83-186, 8 September 1983), p. 4.

²⁸U.S. ACIR, *Intergovernmental Perspective* 8/9 (Winter 1983): 33.

²⁹Four states (Hawaii, Kansas, Maryland, and New York) have decided to continue with HUD administration of the Small Cities CDBG program. GAO, *States Are Making Good Progress*, p. 3.

A "BEFORE AND AFTER" TEST OF AN INTERGOVERNMENTAL PROGRAM

This article assesses some of the consequences of state assumption of the administrative responsibilities for the Small Cities block grants in the State of Mississippi. In particular, the research analyzes changes in the pattern of CDBG awards in terms of number, size, projects funded, recipients served, and national versus state objectives achieved. The eleven year (1975-1985) history of Small Cities CDBG awards in Mississippi serves as a strong test of programmatic changes due to devolution because this state (1) contains the largest proportion of targeted LMI citizens in the nation, (2) has the country's third largest proportion of targeted communities (i.e., under 50,000 population), and (3) only recently has adopted some administrative reforms (e.g., a merit system, executive preparation of budgets, and program evaluations) common in other states. Mississippi's experience with state control of the Small Cities CDBG program will be examined through a description of the state's award process and by a comparison of award patterns under state administration (1982-1985) with those made by HUD (1975-1981).

A systematic test of the changes resulting from the transfer of the Small Cities program to state control would require a comparison of the pattern of awards made by state agencies with the pattern under earlier HUD administration. The data for the before and after analysis presented here comes from the eleven year history (1975-1985) of the Small Cities CDBG program in the State of Mississippi. If the primary objective of aid to small cities is community development activity designed to benefit principally low- and moderate-income individuals, then Mississippi is an advantageous site in which to examine the effects of state control of CDBG awards on the target jurisdictions. Measured by any yardstick, Mississippi is extremely poor and rural. Among all states, it ranks fiftieth in per capita income. Approximately 35 percent of the state's residents live on federal assistance payments, and in thirty-two of the state's eighty-two counties, the principal source of income is federal transfer payments. These income levels are reflected in low levels of community development. For example, while 84.4 percent of all housing units in Mississippi were built after 1939 (tenth best nationally), 27 percent of all dwellings in the state are substandard (fifth worst nationally). As of 1981, sixty-six municipalities, or 23 percent of the state's incorporated areas, still did not have sewer and water systems.

Although Mississippi has changed from a strictly agricultural economy to one that includes significant manufacturing and service sectors, the state remains very rural with a widely dispersed population. Compared to the national average of 73.7 percent urban population, Mississippi's urban population is 47.3 percent (only Vermont and West Virginia are more rural). Eighty-three percent of all county seats, usually the largest municipality in a county, have a population of less than 5,000. Only three Standard Metropolitan Statistical Areas exist wholly within the state and only one city, the state

capital of Jackson, has a population over 50,000. Thus, the state's dead last or almost last ranking on a wide range of community development indicators explains why many observers consider Mississippi to be the least developed of the fifty states.³⁰

THE NEW FEDERALISM PATTERN OF SMALL CITIES CDBG AWARDS IN MISSISSIPPI

The crucial component of state takeover is each state's award mechanism. States were allowed to copy HUD's award criteria or to design their own, provided the state system complied with congressional intent and HUD regulations. HUD's 1982 regulations (24 CFR Part 570.489) gave "maximum feasible deference to State interpretation of the statutory requirements." This policy gave the states a free hand to design their own award procedures. The freedom of program design was so great that states could even devise their own definition of low- and moderate-income households.

Given wide latitude in program design, the states which chose to operate the Small Cities program in FY 1982 produced three basic award mechanisms whose permutations validate the old slogan that the states are the laboratories of democracy. The three types of state award procedures were (1) statewide competition, (2) formula allocation, and (3) substate/regional competition.³¹ Thirty-two of the thirty-six states participating in state-administration in 1982 opted for some form of statewide competition, one state (Ohio) relied totally on formula funding, two states (Arizona and Utah) used substate competition, and one state and a territory (Oklahoma and Puerto Rico) developed hybrid systems.³²

The Mississippi Decision Process

Mississippi utilized a "general competition" system to award CDBG money for FY 1982. A staff member of the Department of Community Development, Governor's Office of Federal-State Programs, described the process in this fashion:

³⁰Ira Sharkansky, *The United States: A Study of a Developing Country* (New York: David McKay, 1975), pp. 62-65.

³¹A fuller description of each major type of state award system is provided in Kenneth Bleakly et al., *The State Community Development Block Grant Program: The First Year's Experience* (Washington, D.C.: U.S. Department of Housing and Urban Development, May 1983), pp. 62-63.

³²The competitive award systems exhibit the design freedom and the individual imagination and policy objectives of the various states. Five basic types of competitive mechanisms have emerged among the states: (1) general competition, (2) competition by project type, (3) single/multipurpose grant competition, (4) population-based competition, and (5) hybrid competition. Project competition is most typical (used by 47.4 percent of the states), with general competition being second in popularity (26.2 percent). Hybrid competition (13.3 percent), single/multipurpose competition (7.8 percent), and population-based competition (5.3 percent) are used by the remaining states. For more detail, see *ibid.*

Mississippi decided to let the applications drive the award system . . . funds were not set aside [initially] for each of the program areas (i.e., economic development, housing, and public works) targeted by the Governor's CDBG Task Force prior to receipt of applications . . . the needs expressed in each of the three target areas determined the amount of state funds set aside for each area.³³

To select grant recipients from applicants, the Governor's Office staff developed a rating system that assigned points (maximum of 1,000) to each application. Half of the points were gained from the general rating factors for all projects (i.e., management capacity factors) and half of the points were based on the project's quality. Each jurisdiction's application was rated by several staff members of the Department of Community Development, and the data submitted as part of the application were verified through on-site visits by staff from the department.³⁴ The director of the Governor's Office best summarized the Mississippi award mechanism when she said: "Federal decisions were typically a go/no go decision. Ours is a more complex scoring system, so that no one factor will win or lose an award."³⁵

One of the complaints local officials (in Mississippi and elsewhere) had about HUD administration was the constant change in HUD rules. This same concern was raised about state administration during public hearings in Mississippi. Although the Governor's Office claimed a commitment to retaining the basic application and competition procedures for several years, important changes occurred in the first four years, partly as a result of a change in governors. For example, the FY 1982 threshold for LMI, which was the old HUD figure of 80 percent, was altered to 51 percent. This change was executed "with guidance from HUD."³⁶ Second, Mississippi's award criteria for FY 1984 were changed from a general competition to a competitive award system based on four types of projects and three different decision cycles: (1) housing and public works awarded on an annual basis, (2) economic development awarded on a monthly basis, and (3) "special opportunities" awarded on an "urgent need" (i.e., emergency) basis.³⁷

The Pattern of CDBG Awards in Mississippi

The decision process used by Mississippi during its first four years (1982-1985) of control over Small Cities CDBG funds produced an award

³³Interview with staff, Governor's Office of Federal-State Programs, State of Mississippi, 1983.

³⁴For more details about Mississippi's procedures for CDBG awards, see Dale Krane, "State Government Control of Small Cities' CDBG Awards: The Case of Mississippi," *Administering The New Federalism*, eds. Lewis G. Bender and James A. Stever (Boulder, Col.: Westview Press, 1986), pp. 248-271.

³⁵Interview with staff, Governor's Office of Federal-State Programs, State of Mississippi, 1983.

³⁶Mississippi, *Community Development Block Grant 1984 Final Statement* (Jackson, Miss.: Governor's Office of Federal-State Programs, 15 May 1984), p. 59.

³⁷Interview with staff, Governor's Office of Federal-State Programs, State of Mississippi, 1984.

pattern substantially different from the earlier practices under HUD administration (1975-1981). Table 1 shows that HUD awarded an annual average of 41 Small Cities grants to Mississippi, a state with 289 eligible small cities and 78 eligible counties. The CDBG awards funded by HUD averaged almost a half million dollars per award and went primarily to comprehensive housing rehabilitation projects (HUD's operational definition of community development).

This preference for fairly large-scale grants to a relatively small number of jurisdictions was the typical award pattern nationwide during HUD's seven years of responsibility for the Small Cities program. Serious management problems sometimes were the result. Small cities with part-time elected officials and few if any trained public managers struggled to handle the large (for them) projects and budgets (sometimes exceeding annual city operating budgets by three or four times). Consequently, HUD area office personnel tended to avoid allocating grants to smaller communities (usually under 5,000 population) that could not easily manage typical renewal projects or afford full-time grantsmen.³⁸

TABLE 1
Community Development Block Grant Awards in Mississippi, 1975-1985

Year	Total awarded	Number of awards	Average award
<u>HUD administration</u>			
1975	\$ 9,758,968	33	\$295,726
1976	12,670,075	33	383,942
1977	15,744,078	43	366,141
1978	20,310,078	38	534,476
1979	26,104,000	49	532,735
1980	30,875,000	47	656,915
1981	30,183,000	43	720,875
1975-1981 average		41	498,687
<u>State administration</u>			
1982	33,204,641	97	342,316
1983	29,031,749	101	287,443
1984	30,218,520	114	265,075
1985 ^a	28,400,517	84	338,101
1982-1985 average		99	308,234

SOURCE: Governor's Office of Federal-State Programs, State of Mississippi.

^aDoes not include 6.7 percent of FY 1985 funds unencumbered as of 14 February 1986.

³⁸Gary A. Mattson and Paul L. Solano, "New Federalism And Small Towns: Do Planning-Management Skills Matter For Access Funding And Benefits?" *Journal of Architecture and Planning Research* 3 (March 1986): 133-147.

State administration of the program in Mississippi in 1982-1985, as illustrated in Table 1, produced an annual average of 99 Small Cities awards, more than twice the annual average of 41 Small Cities awards in the previous seven years. (About 77 percent of CDBG Small Cities grants in Mississippi have gone to incorporated places since the start of the program in 1975, while nonmetropolitan counties have received the remaining 23 percent.) Under state administration, the dollar amounts of the awards averaged \$308,000 apiece, a 37 percent drop from the \$498,000 average awarded by HUD. These shifts in the Mississippi award pattern resemble similar shifts in other states.³⁹

TABLE 2
Distribution of Small Cities CDBG Awards in Mississippi, 1981-1985^a By Size of Municipality

	1980 population of incorporated places					
	0-999	1000-2499	2500-4999	5000-9999	10000-24999	25000-49999
Number of incorporated places N = 289	48.9%	21.8%	12.5%	8.0%	6.2%	2.8%
	141	63	36	23	18	8
<u>HUD administration</u>						
1981 awards N = 40	17.5%	15.0%	22.5%	25.0%	15.0%	5.0%
	7	6	9	10	6	2
<u>State administration</u>						
1982 awards N = 56	21.4%	23.2%	26.8%	12.5%	10.7%	5.4%
	12	13	15	7	6	3
1983 awards N = 74	35.1%	20.3%	20.3%	13.5%	6.8%	4.0%
	26	15	15	10	5	3
1984 awards N = 87	39.1%	21.8%	11.5%	9.2%	10.4%	8.0%
	34	19	10	8	9	7
1985 awards ^b N = 58	39.7%	24.1%	13.8%	6.9%	10.3%	5.2%
	23	14	8	4	6	3

SOURCE: Governor's Office of Federal-State Programs, State of Mississippi.

^aExcludes awards made to counties.

^bDoes not include awards in the last month of FY 1985.

One of the strongest criticisms voiced by local officials under HUD's operation of the Small Cities program concerned the relative inability of smaller cities to obtain CDBG awards.⁴⁰ Table 2 shows that, although "larger"

³⁹GAO, *States Are Making Good Progress* and Bleakly et al., *The State Community Development Block Grant Program*.

⁴⁰Hale and Palley, *The Politics of Federal Grants*, p. 148.

small cities (i.e., more than 5,000 residents) constituted only 17 percent of all Mississippi municipalities, HUD placed almost half (45 percent) of its FY 1981 Small Cities grants in these localities. Mississippi officials after 1981 reversed this concentration of awards by increasing the proportion of grants to cities under 2,500 population. While HUD in FY 1981 awarded only 13 of 40 (32.5 percent) grants to cities under 2,500, state administrators increased this number to 37 of 58 grants (63.8 percent) by FY 1985. A corresponding change in the distribution of CDBG awards made to Mississippi counties was also achieved by state officials.⁴¹

Clearly, smaller Mississippi cities became more successful under state administration in applying for and receiving CDBG grants. Proportionately fewer such governments were denied funding after 1981,⁴² a pattern that corresponded to national trends.⁴³ Larger small cities were not necessarily losers in this trend. As Table 2 notes, the number of CDBG grants given to cities with populations of more than 5,000 remained about the same after the last year of HUD administration. Rather, the increase in awards to the smallest places was accomplished by reducing the sizes of individual grants and spreading out community development funds to more jurisdictions in total.

The proposal to devolve authority over Small Cities funds to state officials had provoked fears that national community development objectives would be compromised or even ignored. Although the 1974 HCDA permitted thirteen different categories of eligible projects, HUD, during its period of control, converted the Small Cities Block Grants into a new version of the department's previous urban renewal program with an emphasis on housing rehabilitation. Evidence from different studies demonstrates that many states increased the number of awards made for public works and economic development projects and, at the same time, decreased the number of awards made in support of housing rehabilitation.⁴⁴ Mississippi was no exception. Just over 60 percent of the CDBG awards made by Mississippi officials in 1982–1985 were for public works; only 4.9 percent supported housing projects. Economic development projects accounted for 15 percent of the state's awards and almost 13 percent of the awards supported emergency (urgent needs) relief projects.⁴⁵

Opponents of state administration of the Small Cities program argued that

⁴¹For more detail, see Dale Krane, "The Mississippi Experience," *From Nation To States*, eds. Jennings et al., pp. 99–126.

⁴²*Ibid.*

⁴³The 1983 HUD study of state award patterns observes that smaller cities have improved chances of "winning" CDBG funds; but the 1983 HUD study also notes that since there are so many very small communities, their "success" rates still remain below that of the larger eligible jurisdictions. Bleakly et al., *The State Community Development Block Grant Program*, pp. 111–116.

⁴⁴Edward T. Jennings, Jr., Dale Krane, Alex N. Pattakos, and B. J. Reed, "Assessing the State Small Cities CDBG Experience," *From Nation To States*, eds. Jennings et al., pp. 221–251.

⁴⁵For an analysis of the project types awarded CDBG funds by Mississippi, see Dale Krane, "The Mississippi Experience," *From Nation To States*, eds. Jennings et al., pp. 99–126.

state government would award CDBG funds in a manner divergent from national policy objectives. Table 3, a profile of CDBG beneficiaries in Mississippi, permits a comparison of national policy objectives with Mississippi's pattern of Small Cities awards.

TABLE 3
CDBG Beneficiaries in Mississippi, 1982-1985

	1982	1983	1984	1985 ^a
Low- and moderate-income persons	105,758	113,192	317,675	147,738
Percent of CDBG funds benefiting low- and moderate-income persons	84	78	77	94
Permanent jobs created	3,575	1,828	4,766	3,592
Amount of funds leveraged (millions)	\$ 27.8	\$ 34.0	\$ 79.0	\$104.8

SOURCE: *Community Development Block Grant Program 1984 & 1985 Final Statements* (Governor's Office of Federal-State Programs, State of Mississippi).

^aDoes not include 6.7 percent of FY 1985 funds unencumbered as of 14 February 1986.

To what extent did the state benefit low- and moderate-income persons in its CDBG allocations during 1982-1985? Table 3 shows that high percentages of funds in each of the four years went to such populations, based on the characteristics of recipient neighborhoods. The four-year average was 83.3 percent, which exceeded HUD's "75-25" rule and was an exception to Paul Dommel's finding that HUD's "level of social targeting . . . reached a plateau with most jurisdictions tending to cluster around an average of 60 to 65 percent."⁴⁶ The Mississippi experience also compares favorably with the results from the 1983 GAO study of the Small Cities program that contrasted the last year of HUD administration (1981) with the first year of state operation (1982) in seven states. Benefits to LMI persons in the seven states averaged 88.2 percent in 1981 and 77.1 percent in 1982.⁴⁷ Percentages of CDBG funds benefiting LMI persons in Mississippi remained at or near the national level after state takeover, even though state officials redirected Small Cities awards away from housing rehabilitation and toward economic development and public works projects. Equally important from a developmental perspective was the state government's insistence that jurisdictions applying for CDBG money agree to commit other funds (public and/or private) in support of proposed projects, thus augmenting the funds available for community development.⁴⁸

⁴⁶Dommel, "Social Targeting," 476.

⁴⁷GAO, *States Are Making Good Progress*, p. 16.

⁴⁸John Sidor, "Communication," *Public Administration Review* 45 (May/June 1985): 448-449.

Another approach by which to determine the extent of state divergence from national policy objectives is to measure the degree of change in the types of jurisdictions that received awards from HUD compared to the types of jurisdictions that received awards from the state. Table 4 explores the "needs" related characteristics of Mississippi cities that were awarded CDBG funds between 1975-1985. Two significant changes are evident. First, the average population size of grant recipients decreased after state takeover by 26.4 percent, a direct consequence of the Mississippi decision to expand the number of awards given. Second, the average percentage of black population in recipient cities dropped after 1981. Because the state decided to distribute CDBG grants to a larger number of cities under state administration (an annual average of 99 as compared to only 41 under HUD administration), it was no longer possible to concentrate Small Cities funds in municipalities (77 out of 289) with majority black populations.

TABLE 4
Characteristics of CDBG Recipient Jurisdictions in Mississippi, 1975-1985^a

Year	Means				
	Total population	Percent black population	Per capita income	Percent poverty population	Percent pre-1940 housing
HUD administration					
1975	2,275	51.8	\$4,959	31.7	25.7
1976	6,844	47.2	4,767	29.9	22.3
1977	7,678	47.4	4,742	29.3	20.6
1978	8,365	53.9	4,488	33.2	22.5
1979	7,721	50.1	4,690	30.3	21.1
1980	10,267	42.2	5,046	26.2	21.7
1981	6,460	45.3	4,858	29.7	22.8
1975-1981 average	7,087	48.3	4,793	30.0	22.4
State administration					
1982	4,838	42.3	4,841	28.8	23.3
1983	5,078	38.1	5,183	27.2	22.3
1984	6,462	41.3	4,811	28.8	23.0
1985 ^b	4,491	38.5	4,740	28.8	23.4
1982-1985 average	5,217	40.1	4,894	28.4	23.0

SOURCE: Governor's Office of Federal-State Programs, State of Mississippi.

^aExcludes counties.

^bDoes not include 6.7 percent of FY 1985 funds unencumbered as of 14 February 1986.

The change from HUD to state administration made very little difference in the other “needs” indicators—income, poverty percentage, and age of housing. This lack of change resulted less from the state’s adherence to the HUD emphasis on targeting aid to needy communities than from the presence of widespread poverty throughout Mississippi. Almost any criteria of need the state could adopt would direct CDBG funds to impoverished localities containing significant numbers of LMI persons, black and/or white.

THE CONSEQUENCES OF DEVOLUTION

Devolution to state government control altered the nature of the Small Cities CDBG program in Mississippi. The evidence presented in the foregoing tables leaves little doubt about the program’s transformation. The changes associated with state administration are substantial:

- More grants were awarded annually under state administration, and the average dollar amount of each grant was smaller.
- Three-fourths of the projects funded were for public works or economic development, while housing and concentrated neighborhood revitalization projects accounted for less than 10 percent of the state’s awards.
- More than three-fifths of the state’s awards went to the smallest cities, with populations of 2,500 and under.
- The probability that a given small city would obtain a CDBG grant almost doubled.
- The percentage of funds benefiting low- and moderate-income persons remained essentially the same.

These new features and outcomes resulting from state takeover meant that in Mississippi the Small Cities program experienced change in a complex fashion. On the one hand, state administration expanded the program to include more diversity in the types of projects eligible and fundable under the state’s award criteria. At the same time, state administration narrowed the CDBG program at the community level by channeling the bulk of community development funds to single-purpose projects rather than to multipurpose/neighborhood reconstruction projects. It is relevant to note that the programmatic changes due to devolution observed in Mississippi fit closely with the changes that have been reported in other states.⁴⁹

Clearly, small cities and counties in Mississippi gained increased access to CDBG money with the move to state administration. Mississippi’s award criteria ensured that more of the smallest localities would obtain Community Development grants. Although the price paid for this greater “success” rate has been smaller (in dollar terms) annual awards, many of the smallest localities in Mississippi that did not receive funds from HUD received assistance from the state. With more very small cities being awarded CDBG

⁴⁹Jennings et al., “Assessing the State Small Cities Experience,” *From Nation To States*, eds. Jennings et al., pp. 221-251.

funds, the previous advantage larger communities had over smaller ones was reduced. One important consequence of this inclusion of smaller cities in the ranks of CDBG recipients was that a major obstacle to small town development—the absence of capital—could be more easily overcome for some communities.⁵⁰

Another set of policy consequences generated by state control can be thought of as a “return to the past.” The state-managed CDBG program restored the linkage between state and local governments that the HUD-local relationship had weakened. While small cities in the past had charged that state governments ignored them, the shift from HUD to state administration not only funded more cities, but also offered them more choices and thus was more responsive to local needs. Because the Mississippi award system provided options as to types of projects eligible for funding, jurisdictions in this state were able to tailor their own strategies for community development. State administration permitted the small cities to pursue traditional municipal priorities, such as public works projects, an option limited by the earlier HUD emphasis on housing construction and rehabilitation.⁵¹ CDBG support for housing projects was still available under state administration, an indication of how small town officials in Mississippi were given freedom of choice in the design and execution of local community development after 1981.

Perhaps the broadest and most fundamental outcome of state administration as exemplified by the Mississippi case involves the definition of “community development.” Through four decades of national policy debates, there has not yet emerged a consensus on the meaning of community development, especially in terms of the citizens to be served and the strategies to be utilized. Are the beneficiaries to be the inner city poor, the rural poor, families with moderate as well as low incomes, or all such groups? Even more disagreement exists over the appropriate and effective strategies by which “community development” can be advanced. Should funds be expended on slum clearance, on income subsidies, on job creation, or on the improvement of essential communitywide services? Much of the conflict over the CDBG program arises out of the confusion over these policy choices.⁵² Debate also continues, of course, over which level of government should make these policy choices.

Devolution of the Small Cities program diminished the voice of HUD policymakers and enhanced the voice of state and local government officials in the definition and strategies of community development. HUD was no longer able to dictate to localities project priorities for CDBG funds. Instead, project types and communities benefited became a function of intrastate political and administrative considerations as well as national policy. In the case of Mississippi, state government officials devised an award system that accommodated the requests of small-city officials and allocated CDBG money

⁵⁰Hale and Palley, *The Politics of Federal Grants*, p. 146.

⁵¹Glendening and Reeves, *Pragmatic Federalism*, p. 200.

⁵²Jennings et al., “Assessing the State Small Cities Experience,” pp. 246–248.

to a wider range of communities than under HUD administration. While state and local interests were being served, national policy in targeting CDBG funds to low- and moderate-income persons continued to be applied in Mississippi.