

The Performance Measurement Dilemma:

*Making the Case for an Investment-Based Efficiency
Model for HUD's Federal Block Grant Programs*





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Executive Summary

Since 1974 and 1990 respectively, the Community Development Block Grant (CDBG) and Home Investment Partnerships Act (HOME) Programs have enabled municipal leaders across this country to carry out a wide range of projects geared towards improving the lives of low to moderate income families in their communities. As practitioners who have managed more than \$367 million in CDBG and HOME funds, we consider every HUD “grant” dollar utilized by each community as an actual “investment” for that community. Regardless of how or where funds are allocated, we believe these programs have, and will continue to have powerful economic impact and generate a substantial return on investment in each of the communities where the dollars are utilized.

In this document, WFN Consulting proposes a radical paradigm to measure that return in the cities, counties, and states that have received these critical dollars.

Despite the programs’ history and impact on communities, in recent years both CDBG and HOME Programs have been regularly attacked and criticized by some members of Congress, the Government Accountability Office (GAO), HUD’s own Office of the Inspector General (OIG), and by investigative reports from the news media. Despite HUD’s valiant efforts to defend the block grants, the agency seems to lack a reliable methodology and the type of data needed to articulate the actual monetary returns-on-investment in the cities, counties, and states that receive these funds.

Why must practitioners who manage these programs for cities, counties, and states throughout the U.S. struggle to portray the effectiveness of these programs in their own communities? Can there be a solution to the HUD’s continuing challenge to prove that CDBG and HOME are accomplishing the objectives contained in their enabling legislation?

Must CDBG and HOME disappear before anyone realizes their real impact and value to the nation?

Because we manage the HUD Portfolio, on a full-time basis, for two of the largest jurisdictions in the State of Georgia, we decided to test a concept based on economic drivers that are more relevant and clearly and quantitatively measure the actual return-on-investment for a community. Those drivers

Executive Summary, continued.

are: (1) Jobs that are created or retained; (2) Private investment contributed; (3) Public investment contributed; and (4) Local Tax Base sustainability. These drivers have portability that can be applied on a macro-level and would not be subjected to geographical bias or affected by the autonomy that local and state governments have when funding various projects.

WFN applied our concept to a single activity funded through the HOME Program (an affordable housing development) and then for an entire years' funding for multiple activities through both CDBG and HOME. Real applications of the concept resulted in a 2:1 Private/Public Leveraging ratio and 5:1 Private/Public Leveraging ratio, respectively.

Simply put, after analyzing the project data required by HUD, we have concluded that the wrong data is being analyzed. Moreover, there has been no legitimate tool developed to uniformly determine the economic impact produced by these programs over time.

The current data-sets used by HUD are project-based, with emphasis placed on measuring outputs and outcomes. But more importantly, despite being required to report all forms of financing for each project, the "connection" between the original grant (i.e., "investment") and its true impact on the community is never measured accurately, thus, creating a "one-dimensional" aspect that diminishes the CDBG and HOME "brands", rather than enhancing them.

The conceptual framework developed by WFN provides a powerful barometer of program efficiency for CDBG Program and HOME Program stakeholders. The measures incorporate standardized economic drivers that simplify the process of analyzing each activity and that articulate the actual private investment generated in each community from the expenditure of HUD grant funds. This approach also eliminates reliance on a uniform set of outcomes that can fail to accurately depict the success of a program or activity.

WFN's Investment Efficiency Analysis Model can provide housing and community development practitioners and other stakeholders with a more tangible analysis of how HUD's Programs truly impact every community. Each statistic provided in the context of our research was verified using data that is statutorily required. No use of mathematical extrapolations of formulas was performed to approximate jobs that were created or retained or to ascertain the private investment that was leveraged.

The housing and community development practitioner must incorporate robust metrics and analysis that will permit then to convey to their local officials the success of these federal investments. More importantly, if our research has simulated thought and created a forum for dialogue, we have contributed to the creation of measures that are meaningful and relevant to elected officials, program staff and other stakeholders.



The Performance Measurement Dilemma: *Making the Case for an Investment-Based Efficiency Model for HUD's Federal Block Grant Programs*

Since 1974 and 1990 respectively, the Community Development Block Grant (CDBG) and Home Investment Partnerships Act (HOME) Programs have enabled municipal leaders across this country to carry out a wide range of projects geared towards improving the lives of low to moderate income families in their communities. Designed to revitalize neighborhoods, spur economic development, improve community facilities, and create and preserve affordable housing, these programs include an inherent autonomy that allows grantees to address their community's needs locally and in line with their own overall strategic objectives.

As practitioners who have managed more than \$367 million in CDBG and HOME funds, we consider every HUD "grant" dollar utilized by each community as an actual "investment" for that community. Regardless of how or where funds are allocated, we believe these programs have, and will continue to have powerful economic impact and generate a substantial return on investment in each of the communities where the dollars are utilized.

We've seen the impact firsthand. And we believe the real story needs to be told.

In this document, WFN Consulting proposes a radical paradigm to measure that return in the cities, counties, and states that have received these critical dollars.

Despite the programs' history and impact on communities, in recent years both CDBG and HOME Programs have been regularly attacked and criticized by some members of Congress, the Government Accountability Office (GAO), HUD's own Office of the Inspector General (OIG), and by investigative reports from the news media. Despite HUD's valiant efforts to defend the block grants, the agency seems to lack a reliable methodology and the type of data needed to articulate the actual monetary returns-on-investment in the cities, counties, and states that receive these funds.

As with most federal programs, HUD requires each recipient to report, regularly, on the individual activities funded: the number of persons or households served, demographic data about these individuals and households, and the timely expenditure of activity funds. This information is submitted through HUD's electronic project-based reporting platform known as the Integrated Disbursement and Information System [IDIS].

If HUD requires such a wide range of reporting protocols that are intensely data-driven, why does the agency continue to have difficulty accurately portraying the success and efficiency of their programs? Equally important, why are the programs constantly viewed with such skepticism by lawmakers who repeatedly threaten deep cuts or the elimination of CDBG and HOME? Finally, why must practitioners who manage these programs for cities, counties, and states throughout the U.S. struggle to portray the effectiveness of these programs in their own communities?

Can there be a solution to the HUD's continuing challenge to prove that CDBG and HOME are accomplishing the objectives contained in their enabling legislation?

Must CDBG and HOME disappear before anyone realizes their real impact and value to the nation?

The WFN Consulting Investment Analysis Concept

As active community development practitioners, WFN Consulting has researched the performance measurement dilemma that faces both HUD and practitioners. Because we manage the HUD Portfolio, on a full-time basis, for two of the largest jurisdictions in the State of Georgia, we decided to test a concept based on economic-drivers that are more relevant and clearly and quantitatively measure the actual return-on-investment for a community. More importantly, the drivers utilized have portability that can be applied on a macro-level and would not be subjected to geographical bias or affected by the autonomy that local and state governments have when funding various projects.

The Framework:

WFN's Investment Efficiency Analysis applies four basic "economic-drivers" for every activity funded at the local level with HUD Entitlement funds:

- Jobs that are created or retained;
- Private investment contributed;
- Public investment contributed;
- Local Tax Base sustainability

Again, the framework approaches each dollar as an investment. Despite the somewhat byzantine "jobs created and/or retained" regulations currently required by HUD, our research has led us to conclude that the CDBG and HOME Programs have contributed to local economies in ways that have never been accurately reported or quantified in a manner that measures the positive impact on local economies.

The most significant measure contained in WFN's Investment Efficiency Analysis is:

Any job created or retained through an activity funded, wholly or in part, from CDBG or HOME funds, produces a local economic impact.

Criticism has been levied against the various administrative funding thresholds for HUD Programs that permitted staff salaries and benefits to be considered an "eligible expense." In response to such critics,

it should be clear that if these administrative funds were not available, many government jurisdictions would not possess the financial capacity required to manage the complex CDBG and HOME programs. More importantly, the “investment” derived from these administrative funds provide create multiple economic opportunities for those individuals through their sustained employment.

Answering the Critics with Real Application and Results:

Critics of CDBG and HOME have suggested a history of wasteful spending, a propensity for financial abuse and irregularities, complex regulations, and the use of what some refer to as obsolete and out-of-date formulas that have produced annual allocations resulting in CDBG Program and HOME Program funds purportedly being directed toward so-called “wealthy communities.” HUD has responded to these skeptics and complaints by directing its Office of Inspector General [OIG] to investigate numerous grantees and projects where millions may have been fraudulently or improperly expended, to determine if HUD has provided proper oversight of CDBG and HOME, and to determine if the local jurisdictions manage and monitor for programmatic compliance.

It is safe to observe that the current state of the CDBG and HOME Programs can be described as uncertain and confusing. Reports and data required by HUD are collected using the IDIS reporting system that is entirely-reliant on project-based information and that possesses validity issues caused by user data entry errors. The reliance on IDIS and the way that it captures and reports program performance information contributes to HUD’s problems when the agency testifies before Congress to defend the true impact and efficacy of the CDBG and HOME Programs.

The following are two examples taken from current clients where we applied our concept to a single activity funded through the HOME Program (an affordable housing development) and then for an entire years’ funding for multiple activities through both CDBG and HOME.

Case Study 1

A private developer was tasked with constructing 10 new single-family homes. The total HOME program investment was \$1,978,000 from the local jurisdiction. The vacant lots were acquired, fully developed with single-family homes and placed on the market for sale to income-eligible families.

By virtue of the infrastructure development and subsequent construction of the 10 homes, 30 jobs were created, producing \$1,503,320 in salaries and benefits. Additionally, five jobs were able to be retained by the General Contractor which produced \$156,000 in salaries and benefits.

Regarding local tax base sustainability [prior to the vacant lots being built out], each lot was assessed at \$18 per lot. Once the properties were fully developed and eventually sold, the tax assessment reached \$1,195 per property, netting a potential \$358,800 for the local jurisdiction over the life of the 30-year mortgage. More importantly, each property was financed through a commercial lending institution for 30 year notes with an average sales price of \$130,000, resulting in \$2,062,000 in private financing. Thus, under a total federal HOME Program grant of \$1,978,000, this activity leveraged \$4,079,820 in private sector investment, resulting in a 2:1 Private/Public Leveraging ratio.

Case Study 1: Project Leveraging Ratio Scorecard

Private Investment

\$2,062,000 (Mortgages)
\$1,503,320 (Jobs Created)
\$156,000 (Jobs Retained)
\$358,500 (Tax Revenue)

\$4,079,820

Public Investment

\$1,978,000 - HOME

2:1

Private/Public
Leveraging Ratio.

Case Study 2

Our research team then applied our thesis to an entire years' allocation of CDBG and HOME Program funding for another WFN client. By looking at both CDBG and HOME, we selected a more holistic evaluation to see if the data collected for each project could provide substantive results.

In this instance, we evaluated funding from the 2010 Program Year. The HUD allocations totaled \$5,257,684 [\$4,065,185 for CDBG and \$1,192,500 for HOME].

After analyzing every project file and cross-referencing through HUD's IDIS platform, the results were impressive. Private sector and non-HUD investment in the 2010 projects was significant [\$26,798,684]. Of note, \$16,604,557 [62%] in private investment came from 30-year fixed rate generated through commercial lending institutions for a highly successful downpayment assistance program that permitted 155 income-eligible families to realize the dream of homeownership.

Regarding jobs that were either created or retained as a result of the award of the 2010 HUD CDBG allocation, the initial HUD investment helped retain 166 jobs, creating \$9,894,127 in salaries and benefits. This included private sector/non-HUD employment value totaling \$6,262,175, and \$3,631,952 paid from the CDBG funds. Seven [7] new jobs were created, resulting in \$300,000 in salaries and benefits paid from CDBG funds.

But despite the evidence that the CDBG funds generated a significant private investment in this jurisdiction, WFN staff was intrigued by the complete lack of tax revenue generated. A review of local the tax records revealed either a level tax assessment or decrease in the value of the properties. This result is attributed, in large part, to the stagnant housing market and foreclosure crisis that enveloped the U.S. over the past five years. The foreclosure problem was particularly acute for this jurisdiction which has experienced the highest foreclosure rate of any county in Georgia since 2010. Regardless, the initial federal investment of \$5,257,685 from CDBG and HOME leveraged \$26,798,684 in private investment and non-HUD public investment that produced a Return on Investment [ROI] of 5:1 [Private/HUD].

Case Study 2: Project Leveraging Ratio Scorecard

Private Investment

\$16,604,557 (Mortgages/General Fund)
\$300,000 (Jobs Created)
\$3,631,952 (Jobs Retained – Paid from HUD Funds)
\$6,262,175 (Jobs Retained – Paid from Private/
 \$0 (Tax Revenue) Non-HUD Public Funds)

\$26,798,684

Public Investment

\$4,065,185 – CDBG
\$1,192,500 – HOME

\$5,257,685

HUD Funds Ratio

5:1

Private Sector & Non-HUD Public Funds

Why is a Paradigm Shift Needed?

HUD's current reporting platform requires the reporting of all forms of financial assistance (grants, loans, public funds, or other leveraging) when completing each activity. *However, WFN contends that this data is not quantified in such a way that the actual economic impact is accurately reported at the grantee level for every activity funded with CDBG and HOME Program. The over-reliance on project-based output data (i.e. persons served, units constructed) has resulted in a one-dimensional depiction of how local jurisdictions are spending these dollars. More importantly, by our conservative estimation, this approach has resulted in hundreds of millions of private investment that has never been captured or accurately reported by grantees across the Nation.*

Simply put, after analyzing the project data required by HUD, we have concluded that the wrong data is being analyzed. Moreover, there has been no legitimate tool developed to uniformly determine the economic impact produced by these programs over time.

The current data-sets used by HUD are project-based, with emphasis placed on measuring outputs and outcomes. But more importantly, despite being required to report all forms of financing for each project, the "connection" between the original grant (i.e., "investment") and its true impact on the community is never measured accurately, thus, creating a "one-dimensional" aspect that diminishes the CDBG and HOME "brands", rather than enhancing them.

While outcomes are important, they need to remain the focus of the local organization who has received HUD funding to help it measure the efficiency of its programs. Although it comes down to semantics, CDBG and HOME funds need to be analyzed like an "investments", not as "grants". After all, we're talking about money, and money, in a free-market, can only increase in value, decrease in value, or remain static.

The conceptual framework developed by WFN provides a powerful barometer of program efficiency for CDBG Program and HOME Program stakeholders. The measures incorporate standardized economic drivers that simplify the process of analyzing each activity and that articulate the actual private investment generated in each community from the expenditure of HUD grant funds. This approach also eliminates reliance on a uniform set of outcomes that can fail to accurately depict the success of a program or activity.

For example, in a hypothetical example, a non-profit organization in Any County, Florida, receives \$25,000 in CDBG funds to help subsidize an after-school reading program for low-income children. Conversely, a non-profit organization in That County, Washington receives \$25,000 in CDBG funds for a similar reading program. The barometer for success or the outcomes that determines the efficacy of each program are unique to that organization and the possibility exists that “success” could be measured in a completely different context, thus making outcomes a subjective exercise unique to the end-user.

Outputs on the other hand, have always been the staple of determining performance metrics or to measure if goals have been met. But if outputs for HUD Programs carried as much impact as they should, then how do we explain what happened to the HOME Program in 2011? During 2012, HUD celebrated 20 years of providing affordable housing through the HOME Program. HUD also reported the completion of the one millionth HOME-funded housing units. While HUD and HOME practitioners celebrated these successes, the program received a 50% cut in funding (starting with \$1.825 in 2010, \$1.6 billion in 2011, and ending with \$1.0 billion in 2012).

Another significant event during 2011-2012 was a year-long *Washington Post* investigative report focusing on the HOME Program’s inefficiencies. The Post story described poor data collection, inaccurate or incomplete project reporting, and alleged wasteful spending. The positive results from the HOME Program expenditure milestones were significantly diminished because HUD had to focus on (1) rebutting the multiple assertions made in the *Post* article by launching a reactive public relations campaign; and, (2) almost simultaneously being called to testifying before various congressional committees on Capitol Hill about the *Post* report.

Where Do We Go From Here?

To HUD’s credit, they understand the current IDIS platform does not produce the type of data needed to provide various stakeholders with the answers to very pointed questions about their programs. However, HUD staff does not have the budget to make all the changes necessary to create IDIS reporting that can quickly eradicate the negative perceptions about CDBG and HOME. However, if funding is provided to HUD changes could be made by HUD to enhance IDIS performance reporting.

Regardless, WFN’s Investment Efficiency Analysis Model can provide housing and community development practitioners and other stakeholders with a more tangible analysis of how HUD’s Programs truly impact every community. Each statistic provided in the context of our research was verified using data that is statutorily required. No use of mathematical extrapolations of formulas was

performed to approximate jobs that were created or retained or to ascertain the private investment that was leveraged.

The project files had all of the requisite data necessary to support our thesis, or we interviewed the key parties (contractors, non-profit organizations, or government employees). Given the difficult state of our current economy and the budget cuts that loom for most Federal agencies every year, wouldn't it make sense to document the true economic impact of these programs? Outputs and outcomes help us connect with persons being served, as are the wonderful "hearts and minds" stories that make great copy on the evening news, but is it really enough? Unfortunately, based on the current state of the Federal Budget, the answer is a resounding "No." To fill this vacuum, new concepts and frameworks must be introduced to ensure the continued relevancy of HUD's programs.

The WFN model may not be the only way to measure the effectiveness of the CDBG and HOME Program investment. This framework may not be the solution that HUD is seeking to justify the continuation of these programs. However, the housing and community development practitioner must incorporate robust metrics and analysis that will permit them to convey to their local officials the success of these federal investments. More importantly, if our research has simulated thought and created a forum for dialogue, we have contributed to the creation of measures that are meaningful and relevant to elected officials, program staff and other stakeholders.

WFN Consulting welcomes comments on its Investment Efficiency Analysis Model.

Please provide comments and suggestions to:

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