

December 5, 2012

The Honorable Tom Coburn
United States Senate
Washington, DC 20510

Dear Senator Coburn:

The undersigned organizations representing local elected officials, state and local community development practitioners, and non-profit groups, all members of the Community Development Block Grant (CDBG) Coalition, write this letter in response to the negative and inaccurate portrayal of the CDBG-funded projects highlighted in your “Wastebook 2012.”

CDBG is a flexible program that provides State and local governments – rural, suburban and urban – with critical resources to address a wide range of community development needs. Funding priorities are based on citizen input and participation and must meet federal national objectives and eligible activities. Safeguards are put in place to ensure the funding is being spent correctly including a rigorous planning and annual reporting process that is monitored by the Department of Housing and Urban Development.

Contrary to your assessment that the projects highlighted in the report are “...examples of mismanagement, wasteful spending and special interest deals,” the CDBG projects were not properly researched and fairly represented. We have reviewed and researched each CDBG project listed in the report and have written a correction, below, to the improper assessment of each of these projects in your report. Rather than projects of wasteful spending and special interest deals, each of these projects have gone through a local citizen participation process, been approved at the appropriate level of government, meet the HUD program requirements, and most importantly, serve a need in the community. Moreover, the CDBG funds provided to most of these projects represented a small portion of the overall funding, with CDBG funds being used only as gap funding.

California towns sell federal grants to neighborhoods (p. 37)

According to the report, “some California towns...sell...CDBG to get around the program’s requirements.” This is false. CDBG funds in the Los Angeles Urban County are not exchanged to avoid HUD’s requirements, but in fact to meet them. The exchange of funds process allows the County to efficiently allocate funds within the Urban County Program. The program ensures that funds are spent in the intended jurisdiction for eligible activities such as those that benefit low- and moderate-income and eliminate slum and blight.

According to your report, “by selling the block grant...States and cities free themselves of the program’s requirements and collect other financial benefits.” This is false. Both Beverly Hills and Santa Fe Springs (the communities mentioned in your report) use CDBG to fund projects that require them to adhere to CDBG project requirements. Further, your report states, “Americans generally do not consider the idealized Los Angeles suburb [Beverly Hills] an impoverished town.” This is a false consideration. Out of the Beverly Hills population of

33,792 persons, 7,133 persons (21%) are low- or moderate-income. These residents are at or below the income level which qualifies them to be beneficiaries of CDBG-funded projects/programs.

The report goes on to say, “[Beverly Hills] has been accumulating CDBG funds for years without spending the money...” This is false. Over the last three year period, Beverly Hills received an allocation of approximately \$675,000 and expended over \$500,400 on minor home repair programs for income-qualified single family residences and multi-unit buildings as well as a services for qualified senior citizens.

Sergeant’s Pet Care Products – Nebraska (p. 48)

The State of Nebraska awarded \$505,000 in CDBG funds to Sarpy County, NE to provide expansion funds to Sergeant’s Pet Care Products, an American company that has been in operation since 1868. The funds were used to purchase machinery and equipment to expand the manufacturing facility, which is an eligible economic development activity under CDBG. The new 131,000 square foot production facility cost \$7.7 million to build and was offset by the CDBG grant and local tax abatements. As of last December, the plant had hired 70 new employees and was seeking to hire another 50 persons, including supervisors, mechanics, quality control workers, and chemists, all high-paying positions. A total of 56 jobs for low- and moderate-income persons were created, which meets the CDBG national objective of benefit to low- and moderate-income persons. Seargent’s had considered relocating the plant but the financing package coupled with the local work ethic helped seal the deal, according to Seargent’s CEO Bob Scharf. “Our business is stronger and growing faster than anticipated,” according to the CEO.

Center for Cartoon Studies – Vermont (p. 59)

The State of Vermont awarded CDBG funds to help the Center for Cartoon Studies establish the Inky Solomon Center, a business incubator for graphic artists, in the Village of White River Junction. The Center will provide business space and equipment to support graphic novel production, animation, cartooning, and gaming projects. The Center will provide business space to 14 graphic artists, 10 of which will be persons of low- and moderate-income. CDBG funds provided incubator space with high-tech, very expensive equipment to give students and graduates an opportunity to generate work that otherwise might not have the opportunity as they could not afford the equipment to produce it. This a media field to reckon with that will generate well-paying jobs to low-income people.

Loans to Rhode Island Businesses – Providence, RI (p. 101)

The City of Providence, through the Providence Economic Development Partnership (PEDP), provides loans to businesses within the city limits using a CDBG-funded revolving loan fund. PEDP provides new start-up financing, expansion funds, and other financing to small businesses that result in the retention and/or creation of jobs for low- and moderate-income individuals. The loans are underwritten by staff and reviewed by an outside loan committee consisting of financial professionals to ensure the projects are sound; however, this process is unable to foresee a downturn in the economy which is now occurring in Providence and in many other

communities across the country. The economic downturn has resulted in some loan delinquencies. The report is incorrect in saying that “...twenty-five percent of the program’s loans, collectively worth \$3.4 million, are delinquent...” Furthermore, like any lending institution, PEDP staff work with the businesses that are past due to develop a plan for repayment of the loans. Furthermore, there is no documentation to support the accusation that, “the PEDP makes a point to fund businesses whose loan applications have been rejected repeatedly in the marketplace.” While PEDP does provide loan assistance to businesses that may have been denied by a local lending institution, it does so on a case-by-case basis and to groups that are traditionally underserved by mainstream lending institutions – women and minorities. Most importantly, the CDBG-funded revolving loan fund has generated enough interest over the years to absorb any loan losses alleged in the report. It is well capitalized at \$14 million dollars currently.

Smuttynose Brewery – New Hampshire (p.104)

The Wastebook 2012 does not accurately describe the grant awarded from the State of New Hampshire to the Town of Hampton, NH, nor does it provide the proper context for the project. Far from being a half-million dollar gift to a private business, CDBG funds were granted to the Town of Hampton then subsequently loaned with interest to Smuttynose Brewery. Proceeds from the paid off loan will go into a revolving loan fund for further economic development in the community.

In this banking environment, even profitable businesses have difficulty obtaining all the money they need for expansion projects. This loan is gap financing to fill the hole in the owner’s overall financing package. This project will create 25 new jobs in the hospitality industry, mostly for low- and moderate-income people. Furthermore, this project has wide bi-partisan support at the state and local level. The grant was applied for by Rockingham County, approved by a local nine-member CDBG Advisory Committee and then approved by the five-member Governor’s Council.

In closing, we urge you to retract from your report the small businesses and communities highlighted in this letter. If you have concerns with the integrity of any other CDBG supported project, the CDBG Coalition would be happy to work with your staff to address those concerns and verify the facts.

Sincerely,

U.S. Conference of Mayors
National Association of Counties
National League of Cities
American Planning Association
Council of State Community Development Agencies
National Association of Housing and Redevelopment Officials
National Association of Local Housing Finance Agencies
National Association for County Community and Economic Development

National Community Development Association
National Rural Housing Coalition