WRITTEN STATEMENT

on

HOUSING AND COMMUNITY DEVELOPMENT NEEDS FOR FY03

by

U.S. Conference of Mayors
National Association of Counties
National Association for County Community Economic Development
National Association of Local Housing Finance Agencies
National Community Development Association

for the

Senate Committee on Banking and Urban Affairs

November 29, 2001

Chairman Sarbanes, Senator Gramm, and other Members of the Committee:

The U.S. Conference of Mayors, National Association of Counties, National Association for County Community Economic Development, National Association of Local Housing Finance Agencies, and National Community Development Association, represent a mixture of elected officials and local government agencies which administer HUD's housing and community development programs, principally the Community Development Block Grant program and the HOME Investment Partnerships program. We appreciate the opportunity to provide our written views and recommendations on HUD's housing and community development needs in FY 2003. Our comments will focus primarily on the Community Development Block Grant program and the HOME Investment Partnerships program.

HOME Investment Partnerships Program

The HOME Investment Partnerships Program (HOME) has been a catalyst in spurring new affordable housing development since 1992. Since its inception, the program has expanded the supply of decent, safe, affordable housing for low- and moderate-income families, strengthened public-private partnerships in developing affordable housing, and provided funding to communities to assist in meeting their housing challenges. The flexibility of the program allows local participating jurisdictions to use the program funds in combination with other federal, state, and local funds, and to work with their non-profit partners, to develop affordable housing, both ownership and rental, based on locally-defined needs.

According to cumulative HUD data as of October 31, 2001, since HOME was created in 1990, it has helped to develop or rehabilitate over 617,513 affordable homes for low- and very-low income families. Targeting is very deep in the HOME program. The majority of HOME funds have been committed to housing that will be occupied by very low-income people and a substantial amount will assist families with incomes no greater than 30 percent of median (extremely low income). As of the end of October 2001, more than 81 percent of home-assisted rental housing was benefitting families at or below 50 percent of area median income, while 41 percent was helping families with incomes at or below 30 percent of area median income. In addition, approximately 29 percent of the home buyer units assisted with HOME was targeted to families at or below 50 percent of area median income.

HOME funds help low- and very-low income families realize the dream of homeownership by providing for construction and rehabilitation of housing as well as providing the down payment and/or closing cost assistance. Since 1992, HOME funds have been committed to 352,190 homeowner units (this includes assistance to 229,612 first time home buyer units and rehabilitation assistance to 122,578 occupied homeowner units).

HOME is cost effective and provides the gap financing necessary to attract private loans and investments to projects. For each HOME dollar, $3.93 of private and other funds is currently being leveraged. This clearly illustrates the judicious use of HOME funds by local governments.

HOME is a sound program, with an excellent track record in developing affordable housing for households at various income levels. However, HOME is limited by the amount of funding that is appropriated each year. Funding for the program has increased very little since it first began in 1992. The amount allocated under the program in 1992 was $1.460 billion. The amount appropriated for 2002 was $1.85 billion. Of this amount, $87 million was provided to set-asides within the program. In addition, the increasing number of new participating jurisdictions and consortia will decrease the formula allocation further. Moreover, the formula allocation for the program was not increased from FY 2001 to FY 2002. This concerns us greatly. In order to expand efforts to meet the enormous need for affordable housing in this country, adequate resources must be appropriated for programs such as HOME. We propose a funding level of $2.25 billion for the basic HOME program in FY 2003, along with an additional appropriation of $2 billion for a rental production program within HOME, which is further described below. We also propose that the set-asides within the program be scaled back, or eliminated altogether.

We were pleased to see that the initial $200 million set-aside requested by the President within HOME for a down payment assistance program was reduced to $50 million. We are opposed to this set-aside and ask that it be eliminated altogether in FY 2003. HOME funds may already be used for down payment and/or closing cost assistance. In fact, since 1992, $1.06 billion of HOME funds have been used to help families buy their first home. There is no need to create a separate program for this purpose for it would result in a proliferation of set-asides that further dilute the program.

Besides an increase in the formula allocation of the program, we also strongly recommend that technical assistance funding under HOME be continued, and increased. We are pleased that HUD continues to receive technical assistance funding annually; however, the funding amount is diminishing. We have heard from sources at HUD that the amount available for HOME technical assistance funding at the national level will be severely cut this year, or possibly eliminated altogether. Our associations have applied for this funding through HUD's SuperNOFA process in past years to directly provide technical assistance to our members. We use this funding to provide training workshops, develop publications, and provide on-site technical assistance, all targeted to helping grantees better administer their HOME funds. We ask that you continue to make HOME technical assistance funds available at the national level for our associations and others to help their grantees better implement the HOME program.

Housing Production

According to HUD's most recent edition of its *Report on Worst Case Housing Needs,* over five million renter households have severe housing needs. These households contain renters with incomes below 50 percent of area median income who pay more than half their income for rent or live in severely substandard housing. Progress in assisting these households is diminished by the substantial shortages of affordable housing. Between 1997 and 1999, the number of units with rents affordable to households with incomes below 50 percent of area median income dropped by 1.1 million, a loss of seven percent. The report's findings on the accelerated reduction in the number of affordable rental units show that the private market is not producing enough affordable rental housing to meet existing demand. One answer to this crisis is to produce more affordable housing using effective federal housing programs such as HOME.

In the past couple of years, there have been a number of bills introduced in Congress to increase housing production, primarily targeted to households at or below 30% of area median income. These proposals have mainly focused on creating a National Housing Trust Fund, a new and separate program from existing HUD programs. In an effort to avoid a situation where such a program would compete with HOME, our associations propose that a housing production element be incorporated within HOME. The infrastructure is already in place within HOME to implement such a program.

Our proposal would provide grants for new construction, substantial rehabilitation and preservation of multifamily housing. Mixed income projects would be encouraged. All of the resources made available under our proposal must benefit households at or below 80 percent of median income, with at least 50 percent benefitting those at or below 30 percent of median income. Funds would be apportioned 60 percent to local participating jurisdictions and 40 percent to states using a formula that measures inadequate housing supply. We would be pleased to work further with the Committee in crafting a production program.

In addition to this proposal, there are several other modifications/refinements to the HOME program that we offer for the Committee's consideration:

- We recommend that a loan guarantee program be added to HOME, modeled after the very successful Section 108 program under CDBG. Such a program would enable participating jurisdictions to "borrow" against future entitlement grants in order to undertake large-scale projects. The House passed this proposal in 1994, but the Senate never acted;
- We recommend that the statute be changed to allow participating jurisdictions to provide matching funds on a program year, rather than the current federal fiscal year basis, to simplify program administration;
- We recommend permitting the substitution of a substantially equivalent state or local environmental review requirement for the environmental review requirements under NEPA;.
- We recommend providing an exemption from the environmental review requirements for rehabilitation of one to four units and all owner-occupied rental and homeownership projects;
- We recommend deleting the current-law requirement that the Secretary establish per-unit subsidy limits. The statute already requires participating jurisdictions to certify that they have not provided more funds than are necessary to assure a project's financial feasibility.

Community Development Block Grant Program

Now in its 27th year, the Community Development Block Grant program is the Federal government's most successful domestic program. CDBG helps communities tackle some of their most serious community development challenges. The CDBG program's success stems from its utility, i.e., providing cities and counties with an annual, predictable level of funding, which can be used with maximum flexibility to address unique neighborhood revitalization needs.

Based on the FY 2001 CDBG data reported by grantees, CDBG provided funding to 172,445 housing units. Of this number, CDBG provided funding for the new construction of 3,878 units, assisted 11,812 first time homebuyers, and rehabilitated 156,755 housing units. In addition to providing funding to housing units, the program created or retained 116,777 jobs. This is just in FY 2001 alone. In FY 2001, entitlement communities spent their CDBG funds in the following manner: housing (30.98 percent), public works and infrastructure (25.56 percent), planning, monitoring and program administration (15.48 percent), public services (13.25 percent), economic development (8.32 percent), and preventing or eliminating slums and blight (6.21 percent).

Even though the program has performed well, the annual appropriations for CDBG have remained static over the last decade, increasing only slightly in some years. Most recently, the program received a cut in FY 2002, reducing its annual appropriation from $5.057 billion in FY 2001 to $5.0 billion in FY 2002. We were very surprised and disheartened to see a cut to the program, particularly a program that has such a stellar track record in benefitting our communities across the country, and particularly given the fact that very few other HUD programs received a cut. More importantly, the formula allocation to grantees has begun to erode because of the increased set-asides allotted by Congress under the program. In FY 2002, the formula allocation was cut by approximately $59 million because of decreased appropriations and continued funding of a large number of set-asides under the program. If the set-asides continue to flourish, the formula allocation to grantees will continue to diminish over time, providing fewer and fewer funds to grantees for their community development needs, which are also increasing. In addition, the number of new entitlement communities has increased which has further decreased the formula allocation to existing communities. We implore Congress to increase funding for CDBG in FY 2003, especially given the set back in funding to the program this year. Given the fact that the program has increased very little in its 27 years, we are seeking at least $5.0 billion in formula funding in FY 2003. This would represent a $659 million increase in formula funding from FY 2002. In addition to the increase in the program’s formula allocation, we are also seeking funding for technical assistance under the program. For reasons unknown to us, Congress discontinued funding for CDBG technical assistance a few years ago. Since that time there has been no funding for technical assistance for the program. Like in the HOME program, technical assistance is crucial to ensuring better implementation of the program.

In addition to increased funding for the program, there are several refinements to the CDBG program that we offer for the Committee’s consideration:

- We recommend that the threshold for application of the Davis-Bacon requirements for CDBG conform to that of the HOME program, i.e. 12 units or more;

- We recommend making CDBG expenditures for fair housing a directly eligible activity, rather than its being subject to the 20 percent administrative cap. This will take some of the pressure off the administrative cap;
- We further recommend eliminating the current law requirement that housing service activities under CDBG be subject to the 20 percent administrative cap. This is a technical correction. The law prior to the 1992 amendments did not place these activities under the cap;
- We recommend permitting the substitution of substantially equivalent state or local environment review requirement for the environmental review requirements under NEPA.

IDIS

Both HOME and CDBG grantees utilize HUD's Integrated Disbursement Information System (IDIS) to report their accomplishments as well as drawn down funds. Our associations, as well as grantees, continue to work with HUD to iron out the last remaining "kinks" in the system. Overall, the system provides valuable information to grantees, HUD, and Congress on how HOME and CDBG funds are being used nationwide. It is imperative that Congress appropriate sufficient funding to ensure that IDIS continues in operation until HUD has finalized its Departmental Grants Management System (DGMS). No direct funding was appropriated for IDIS in FY 2002. The program will now have to try to seek funding through HUD's working capital fund, with no assurances that funding will be provided. We ask that Congress provide adequate funding for the system in FY 2003 and direct HUD to provide adequate funding for the system this year from its resources. HUD is currently working on developing its DGMS system, which is years away from becoming operational. Until that system is fully operational to the satisfaction of our grantees, Congress must continue to fund IDIS to ensure that grantees can properly administer their CDBG and HOME projects.

Other Important Programs

There are two other programs that play a key role in expanding the supply of affordable housing – Low-Income Housing Tax Credits and tax-exempt Private Activity Bonds. Tax credits provide equity investments for affordable rental housing, while tax-exempt bonds provide debt financing for affordable rental housing and first mortgage assistance for income-qualified, first-time homebuyers (Mortgage Revenue Bonds). We worked very hard over the past four years to convince Congress of the need to increase the statewide volume caps that apply to these two programs. We were very pleased that Congress increased both volume caps in a two-step process as part of the FY 2001 omnibus appropriations bill. Under the legislation, the tax credit cap increased on January 1, 2001 from the previous $1.25 per capita, per state to $1.50 per capita, per state. On January 1, 2002 it will increase to $1.75 per capita, per state. Similarly, the volume cap for Private Activity Bonds increased on January 1, 2001 from the previous greater of $50 per capita or $150 million per state to the greater of $62.50 per capita or $187.50 per state. On January 1, 2002 it will increase to the greater of $75 per capita or $225 million per state. Both caps are indexed for inflation going forward. In most states housing gets the lion's share of the bond volume cap.

However, the bond cap increase will be undermined by an obscure provision added to the tax code in 1988 applicable to Mortgage Revenue Bonds. It requires that mortgage prepayments made 10 years after the date that the bonds were issued be used to redeem the bonds, rather than recycling them into new mortgages. Recycling is permitted within the first 10 years. We believe it should be permitted after the first 10 years, and therefore support H.R. 951. This legislation, introduced by Reps. Houghton and Neal, would repeal the 10-year rule. H.R. 951 also provides an optional method for calculating the maximum allowable purchase price of a home that a first-time homebuyer can purchase with Mortgage Revenue Bond assistance.

The final issue upon which we wish to comment is the need to renew expiring rent subsidy contracts under the McKinney Act's homeless housing programs. In order to assure continuity of services and rental assistance in these projects we recommend that the Supportive Housing Program renewals and Shelter Plus Care renewals be transferred to the regular Section 8-rental program. This would allow more funding to be available under HUD's homeless assistance programs for the development of new projects to assist the homeless.

We would also like for the Committee to give serious consideration to combining HUD's homeless assistance programs into a single, flexible formula-allocated block grant program. While we recognize that there is continued resistance from other groups on this idea, we also recognize that the current system is not perfect. Grantees have to spend months planning and applying for the funds, and then waiting for many more months to hear as to whether or not they were awarded funding through HUD's SuperNOFA competition. We do recognize the importance of the partnerships that have been formed and supported through the current system and agree that the planning process should continue within our block grant proposal. We also recognize that a lot more funding is needed to assist communities in meeting the needs of the homeless. To that end, we request that Congress increase the appropriations level of HUD's homeless assistance programs, including funding the Supportive Housing Program and Shelter Plus Care renewals.

We again thank you for the opportunity to provide written comments on the need for funding for these very important programs. We look forward in working with you and your staff in the year ahead.