WRITTEN STATEMENT

on

HUD APPROPRIATIONS FOR FY 2003

by

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for Environment and Community Development
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on behalf of

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

before the

HUD/VA Subcommittee of the House Appropriations Committee

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Chairman Walsh, Representative Frank and other Members of the Committee

My Name is Melvin Richardson and I am Assistant Director for Environment and Community Development in Fulton County, Georgia. I am here today providing testimony on behalf of:
the National Association of Counties, the National Association for County Community Economic Development, the National Association of Local Housing Finance Agencies, the National Community Development Association, and the U.S. Conference of Mayors, representing 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 this opportunity to provide oral statement and written views on recommendations for HUD's housing and community development needs in FY 2003. My comments will focus primarily on the Community Development Block Grant program and the HOME Investment Partnerships program.

The Community Development Block Grant Program

Now in its 28th year, is our nation'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 grantee data from the IDIS system, CDBG provided funding to 172,445 housing units, of which 3,878 units were for new construction, 11,812 were first time homebuyers, and 156,755 represented rehabilitated housing units. In addition to providing funding to housing units, the program created or retained 116,777 jobs.

Even though the program has performed well, and grantees have improved their spend-out rates, CDBG annual appropriations have remained virtually static over the last decade. 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. 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. 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 cut in FY 2002.

The program's funding has increased very little in its 27 years, and the need continues to expand, we are seeking a minimum of $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. Like in the HOME program, technical assistance is crucial to ensuring better implementation of the CDBG program.

HR 1191

Last year Representative Carrie Meek of Florida introduced HR 1191; the Community Development Block Grant Renewal Act, which would significantly reduce the flexibility of this program. As you know, HR 1191 would increase from 70 percent to 80 percent the aggregate amount of funding, over the grantees reporting period that must benefit low-and moderate-income persons, and 40 percent of funding would have to benefit those at or below 50 percent of the area median income. The bill further targets CDBG funding by disallowing the claiming of low-and moderate-income benefits for activities undertaken in areas that are not primarily residential in character. In many communities, the downtown business district is the central location for services and commodities available to low-and moderate-income residents.

Rural areas of the country have more dispersed populations. This proposed amendment would make it extremely difficult for cities in these areas to spend their CDBG funds. Small cities and large, rural counties spend a large proportion of their CDBG dollars on infrastructure projects, particularly water and sewer projects, which use an area-wide benefit calculation. HR 1191, would negate practically all of these projects due to these communities' dispersed populations.

Wealthiest Communities' Proposed Cut

We also want to express strong opposition to the Administration's so-called "wealthiest communities" proposal in the FY 2003 budget request. This proposal ignores the existence of pockets of poverty within wealthy communities and pits communities against each other. The CDBG formula, by design, distributes funding based, in part, on the percentage of persons living in poverty within an entitlement community. We urge the subcommittee to reject this proposal should it come as an amendment to the 2003 HUD/VA appropriations bill.

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 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 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 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.

- Congressional Earmarks. We request that in the event a community receives Congressional sponsored project, that the community receives appropriate notification so that local community development staff can adequately program the project into its annual work schedule. Secondly, we request that all Congressionally sponsored earmarks come with administration funds so that the local community development staff can complete the federal requirements, such as the environmental review processes and Davis Bacon requirements.

- Lastly, we recommend that any consideration of a review of the CDBG formula take place only after all the 2000 Census data has been disseminated and at such time that OMB has made its definitions of metropolitan cities known. These two very important considerations are highly critical to the CDBG program and can only be made when the data is available to support, thoughtful and rational recommendations for a formula change

IDIS

Both HOME and CDBG grantees utilize HUD's Integrated Disbursement Information System (IDIS) to report accomplishments as well as to draw down funds. We as well as the 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 to operate well until HUD has finalized the system's successor. No direct funding was appropriated for IDIS in FY 2002. We ask that Congress provide adequate funding for the system in FY 2003 and beyond, and direct HUD to provide adequate funding for the system from dedicated information technology resources and not program dollars.

The FY 2001 data provided on the CDBG program and the HOME 2002 monthly data for this testimony came directly from the IDIS system, as well as data from a Congressionally requested report from HUD which indicates that overall, the CDBG program is spending 84% of its funds on activities that benefit primarily low- and moderate-income persons.

HUD is currently working on developing a Department- wide grants tracking system, which is years from being operational. Until that system is online, Congress must continue to fund IDIS to ensure that grantees provide good and properly administer their CDBG and HOME projects.

The HOME Investment Partnerships Program

The HOME Investment Partnerships Program (HOME) has been a catalyst for the development of affordable housing 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 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 March 2002, since HOME was created in 1990, it has helped to develop or rehabilitate over 647,801 affordable homes for low- and very-low income families. 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). 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 is a sound program, with an excellent track record in developing affordable housing for households at various income levels, but it is limited by the amount of funding that is appropriated each year, which 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. We request 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 support funding for new affordable housing production however we do not support set-asides that duplicate and take formula funding from the existing formula. HOME funds may already be used for down payment and/or closing cost assistance.

Besides an increase to the HOME formula, we strongly recommend that technical assistance funding under HOME be continued, and increased. We have heard from sources at HUD that the amount available for HOME technical assistance funding at the national level will be severely cut, or possibly eliminated altogether. Our associations have received this funding to directly provide technical assistance to our members. to help grantees better administer their HOME funds.

Affordable Housing Production Program

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 separate program from existing HUD programs. To avoid a situation where such a program would compete with HOME, we 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. Funds would be apportioned using the current HOME formula. 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.

- We wish to comment on 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.

Homelessness Program Consolidation

We request the Committee to seriously consider combining HUD's homeless assistance programs into a single, flexible, formula block grant program. Grantees have to spend months planning and applying and waiting for the funds through HUD's Super NOFA competition. We recognize the importance of the partnerships formed, support the current planning system and agree that it should continue within our block grant proposal. 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 oral and 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.