OVERSIGHT OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT AND ITS FISCAL YEAR 2006 BUDGET

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

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OVERSIGHT OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT AND ITS FISCAL YEAR 2006 BUDGET

Wednesday, March 2, 2005

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to call, at 10:15 a.m., in Room 2128, Rayburn House Office Building, Hon. Michael G. Oxley [chairman of the committee] Presiding.

Present: Representatives Oxley, Lucas, Ney, Biggert, Shays, Miller of California, Tiberi, Kennedy, Feeney, Brown-Waite, Renzi, Pearce, Neugebauer, Fitzpatrick, Davis of Kentucky, McHenry, Frank, Waters, Sanders, Maloney, Velazquez, Watt, Ackerman, Sherman, Lee, Capuano, Hinojosa, Clay, Israel, McCarthy, Baca, Matheson, Lynch, Miller of North Carolina, Scott, Davis of Alabama, Green, Cleaver, Wasserman Schultz, and Moore.

The CHAIRMAN. The committee will come to order. Pursuant to Rule 3(F)(2) of the Rules of the Committee on Financial Services of the 109th Congress, the Chair announces that he will limit recognition of opening statements to the Chair and ranking minority member of the full committee, and the Chair and ranking minority member of the Subcommittee on Housing and Community Opportunity or their respective designees to a period not to exceed 16 minutes, evenly divided between the majority and minority.

Today, the Financial Services Committee welcomes Secretary of the Housing and Urban Development Department Alphonso Jackson. We offer our congratulations on your successful first year as Secretary.

Over the past few years, this committee and the administration continue to seek bipartisan ways to extend homeownership to make existing housing programs work better. For example, the committee passed the American Dream Down Payment Act that benefits 45,000 new homeowners annually.

The committee passed the Hospital Mortgage Insurance Act of 2003, which streamlined the process for local community hospitals to insure mortgages, thereby enhancing the quality of life and health care, particularly in rural communities.

The committee enacted legislation to increase FHA multifamily loan limits, which addresses the acute issue of affordable rental housing in high-cost areas.

In rural areas, the committee passed legislation that would allow the Government National Mortgage Association to securitize Rural

Housing Service multifamily loans, as well as providing new homeownership opportunities for Native Americans.

This year the President's fiscal year 2006 budget proposal would strengthen the core of certain housing initiatives, including rental housing assistance and public housing. The proposal advocates homeownership, which endures as an important goal for most Americans. The administration has also proposed an overhaul of the way the Federal Government funds and administers community and economic development. The administration has not yet offered legislation describing how these 35 programs will collapse into grant programs.

Mr. Secretary, I am looking forward to the opportunity to have you and Secretary of Commerce Gutierrez address this committee on the details of this proposal, and how we can reach common ground to promote homeownership, community development and economic opportunity.

President Bush has inspired us to make homeownership happen for even more Americans, even at a time when our homeownership rate is the highest ever at 68 percent. Since last year, homeownership for African Americans and Hispanic homeowners has now exceeded 50 percent.

Mr. Secretary, I also want to congratulate you on your leadership in creating and sustaining rental housing opportunities for families not yet ready to pursue homeownership. This year's budget provides an increase in funding for rental housing through housing choice vouchers.

To address another aspect of HUD's oversight responsibility, over the past 2 years we have learned of accounting errors at Fannie Mae and Freddie Mac, and also discovered that Fannie Mae sold fraudulent loans to Ginnie Mae.

Chairman Baker has been diligent in his goal of reforming the GSEs. Many of the issues that have come to light can be directly attributed to his efforts. As we consider proposals for the reform of the GSEs, it is my hope that the committee can work with the administration to craft a regulatory structure that protects the taxpayers, ensures their safe and sound operation, and maintains their housing mission.

Last year, your Department determined that the enterprises were not meeting underserved markets. As mission regulator, HUD raised the affordable housing goals that the GSEs must meet. This committee is interested in any update you can provide related to the progress the GSEs have made in meeting these new goals.

I would also like to mention reform of the Real Estate Settlement Procedures Act. We will all support the goal of simplifying the home-buying process, making it less expensive for consumers. I am hopeful that you will address the Departments' future intent regarding the development of a new proposed rule.

Let me also take this opportunity to thank Housing Subcommittee Chairman Ney for his work on housing issues and recognize the gentleman from Massachusetts for an opening statement.

Mr. FRANK. Thank you, Mr. Chairman. And the most significant thing that has happened with regard to the budget within the jurisdiction of Secretary Jackson, I guess the analogy here is the Sherlock Holmes story in which a dog did not bark. This committee

is the dog that will not be allowed to bark or make any other sound with regard to that budget submission.

In the past, we have had committee markups in which, under the Rules of the House and the procedures of the House, traditionally we have voted on our opinion of the budget and have submitted those views to the Budget Committee. There is a procedure whereby committees are asked to do that.

This year we are doing it in writing with no opportunity for there to be any collective discussion, and the reason is very clear. My colleagues are, on the other side of the aisle, very reluctant to vote on the budget submission you have made. My guess is that when the time comes, many of them will vote against it, but they hope by then some of them will have been forgotten. Because I think it is striking that people should understand, a year ago we did vote, and we voted in this committee by majority to disagree with the budget submission on HOPE VI and on Section 8.

I believe that if the committee would have voted on a whole range of issues here, it would have voted "no." I think the majority's position was very, very clear: Better no vote than voting "no." So I think people should understand the absence of that.

And the reason for the unpopularity, I think, however, is not fully understood.

There are cuts in most of the programs that HUD administers that would help deal with inequality in our society that goes beyond what we ought to tolerate. Obviously, some inequality is essential economically to make our system work.

And I think it is important to make this point. In this area, with regard to a whole range of programs, housing for the disabled, community development block grants, even by the way of homeownership—and the Secretary talks about homeownership, the chairman talked about homeownership. Last year, this committee voted on a bill that I thought was an administration-supported proposal, zero down payment for FHA. This committee voted it out with great bipartisan support, and the Congressional Budget Office killed it because they said it was going to cost money, and we need the money for war and tax cuts and other things.

So, while we have this commitment in principle to homeownership, the FHA zero down payment bill that passed this committee was—it passed this committee, it didn't pass any further. The Republican leadership, presumably with the cooperation of the administration, said "no" to it.

So all of these wishes about homeownership apparently weren't enough to overcome this, and I think what we have here is a general position that needs to be articulated in a number of areas. Certainly here with regard to CDBG, housing for the disabled, public housing, the FHA zero down payment, the administration is, in the name of budget deficit reduction, asking us to make a number of decisions which members think are unpopular.

I think people need to understand, it is not simply a series of random decisions to do unpopular things here or there. The things that the administration is asking Congress to do, that Congress even on the Republican side is reluctant to do, are not accidental. They are the products of a philosophy. They are the products, I believe, of a philosophy which the administration has tried to kind of

make more attractive by calling it the "ownership society." But a lot of people in this society are going to be too poor to own a lot or to own very much.

And I think, as we look at how this works specifically in a whole range of areas—in Social Security, to housing, to veterans' health, to a number of other areas—what we are really being told is that this is the "you-are-on-your-own society." you are on our own; no help is on the way. We do not have any kind of common responsibility to work together.

And, unfortunately, this HUD budget reflects that you-are-on-your-own society, and in almost every area, not every area, but in almost every area where we felt we had some responsibility to come together, the administration asks us to do less, asks us to do less in the name of perpetuating its tax cuts.

You know, I will just note, the CDBG program, that will be a big controversy. There are proposals for substantial cuts in it. One month of the war in Iraq costs more than the entire CDBG program for the whole country. And people can have their views on the war in Iraq one way or the other, but it does seem to me very odd to tell us that we cannot afford 1 month of the war in Iraq for a program that is as important to the cities as the community development block grant.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank the gentleman.

The chairman of the Housing Subcommittee, the gentleman from Ohio, Mr. Ney.

Mr. NEY. Thank you, Mr. Chairman. I want to welcome the Secretary here once again to the House and to the committee, and thank Chairman Oxley for holding this very important hearing that examines both the programs and budgets specific, of course, to HUD.

Those of us on the committee are acutely aware of the many difficult management challenges that are inherent to the Department and have been over the years.

I take this opportunity to pledge to obviously work with you and members of our Housing Subcommittee to continue to create new opportunities for families and individuals seeking to find their part of the American dream.

I do want to mention, last Congress—and our ranking member is here, Congresswoman Waters of California, and we surely appreciate her support, Members both sides of the aisle of the subcommittee—we passed 15 housing-related bills, I think 12 didn't even have a roll call. And we shared thoughts and ideas on these bills. And I think through cooperation on a bipartisan basis with the ranking member and members on both sides of the aisle, and through the support of our chairman and also Mr. Frank, we were able to enact legislation, I think, that has worked in a lot of different ways to make a good situation for housing. There is always more room to grow, as we all know, in it.

I also see the President's commitment to homeownership. I think that is fantastic, and is something that he has pushed with the American Dream Down Payment and other pieces of legislation that have come through here.

But, as far as minority households, we need to constantly realize and state that their share of the American dream is substantially lower. The homeownership rate among white households is about 74.2 percent, while the percent for minority households is substantially less.

So lagging minority homeownership rates are, I think, a serious problem. Obviously, we have got to deal with it; we need to constantly improve the ability of people to have homeownership.

Now, I have talked about the owning of a home, but—that is a desired goal, but of course we deal with Section 8. Not everyone can own a home, and the housing assistance program has been the major vehicle for providing rental assistance to low-income families, individuals. The Section 8 program has become the largest component of HUD's budget.

Rising costs of providing rental assistance is due in varying degrees—and we are proposing something. We have run this by the chairman's staff, and we are working with the ranking member of our Housing Subcommittee and our vice chairman, Mr. Miller, and others, but some roundtables—and we discussed this with you, Mr. Secretary, and we appreciate HUD's input in it; and we are talking with Mr. Knollenberg, who is the appropriator—but a series of roundtables, so that we can really bring in people across the country. And those will take place soon and we will be able to have a dialogue on where we are going.

Mr. Frank mentioned about the fact of, you know, what happens after these situations? But I think—I notice my time has expired. But I think these will be good ways to approach this. GSEs is a great concern, keeping the housing goals intact.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank the gentleman. The gentlelady from California, Ms. Waters.

Ms. WATERS. Thank you very much, Mr. Chairman.

Good morning, Secretary Jackson. Let me just piggyback a little bit on what Chairman Ney has shared with you.

This committee has worked very well from both sides of the aisle to try and create more housing opportunities for people all over this country. And I had great hopes because of the American dream that this administration was going to really do something substantial in this budget. So you have to know I am just very disappointed.

And I have to tell you, I have gone through your testimony, and I am even more disappointed with your testimony and with the huge budget cuts and the massive program transfers away from HUD that the administration has proposed in funding the fiscal year 2006 budget.

The funding year 2006 HUD budget accelerates, it appears, a 4-year effort by the administration to dismantle critical HUD programs, to make deep funding cuts in these programs and, regrettably, to target these cuts to our most vulnerable low-income families, seniors and disabled persons.

Mr. Secretary, I hope to find out in the questioning whether these are really your budget proposals, or whether you just simply are being a good soldier and you have to defend them. In any event, however they have happened, whoever is responsible for

them certainly cannot take credit for caring about the poor and the most vulnerable in our society.

Mr. Secretary, I regret to say that after reading your prepared testimony, it appears that you have your head in the sand. It has that kind of quality to the testimony, and it simply is stunning to me. You lead an agency that is being decimated by this administration, an agency whose budget will fall by $3.85 billion, a 12 percent cut, if the President's funding year 2006 budget is enacted. This is the largest cut of any Cabinet agency.

The President's proposed budget would eviscerate CDBG flexible block grants to States and localities, thereby resulting in a loss of affordable housing investments of $1.16 billion, cut the disabled housing budget by 50 percent, continue an assault on the rental housing assistance safety net programs—that is, Section 8 of public housing—eliminate future funding for the HOPE VI program, rescind $143 million in funding year 2005 HOPE VI funding that was only appropriated a few months ago, and cut funding for housing programs for Native Americans by 16 percent.

Funding for critically needed capital repair of public housing units is cut another whopping $252 million, and operating assistance is cut by 17 million. The overall funding year 2006 public housing request is 9 percent below last year's level, and 30 percent below the level when the administration took office after adjusting for inflation.

Home block grants and the housing for people with AIDS program are also cut. The proposed CDBG cuts, if enacted, would have a devastating impact on housing, neighborhood improvements and social services for the elderly, the disabled, families with children and the homeless. The proposal also would reorient CDBG away from its traditional HUD focus of affordable housing and community development and—I can't understand why—stick it in Commerce. And I just do not now how they would administer this program in that Commerce caters to business interests.

We are talking about taking a program that is dealing with all that I just alluded to and putting it in a place that has no understanding of how to administer it. And particularly with its being cut in the way it is, so far as I can tell, not only did you not resist these cuts and program transfers, it appears that you encouraged them or are at least are indifferent to them.

Mr. Secretary, you may not see it or you may not be willing to acknowledge it, but let me tell you, we have an affordable housing crisis in most of this country. Just 2 weeks ago, the Los Angeles Times reported that police had to disperse a crowd of about 3,000 people who were vying for 150 income housing applications in Hollywood, California, when some people rushed the line and a riot ensued. I think you can find a similar scene in many, many communities.

Mr. Secretary, you have an impossible task before you and I await with interest your attempt to defend this patently inadequate budget.

I thank you and I yield back the balance of my time.

The CHAIRMAN. The gentlelady yields back.

Now I am pleased to recognize the Secretary of Housing and Urban Development, the Honorable Alphonso Jackson. Mr. Secretary, welcome back.

STATEMENT OF THE HONORABLE ALPHONSO JACKSON, SECRETARY, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary JACKSON. Thank you, Chairman Oxley and Ranking Member Frank and distinguished members of the committee. Thank you for inviting me to be here this morning.

I am honored to outline the fiscal year 2006 budget proposal by President Bush for the Department of Housing and Urban Development. Mr. Chairman, in order to save time for questions, I would like to focus my opening statements on HUD's key priorities, new initiatives, and ask that I be allowed to submit my full statement to the committee.

The CHAIRMAN. Without objection.

Secretary JACKSON. Thank you, Mr. Chairman.

Over the past 4 years, HUD has expanded homeownership, increased access to affordable housing, fought housing discrimination, tackled homelessness, and renewed the commitment to those in most need.

HUD's $28.5 billion budget for fiscal year 2006 seeks to build on our success and to lend a compassionate hand to individuals in need, while also using taxpayers' money more wisely through government reforms.

In June 2002, the President challenged the Nation to create 5.5 million new minority homeowners by 2010. In 2004, more Americans achieved the dream of homeownership than at any time in our Nation's history. Today, nearly 70 percent of all American families own their homes, an all-time record.

Since President Bush's challenge, 2.2 million minority families have become homeowners. This represents a 40 percent increase of the 5.5 million goal. As a result, minority homeownership has surpassed 51 percent for the first time in the history of this country.

Despite this progress, we have more work to do. For many families, high down payment and closing costs represent the greatest barrier to homeownership. Since President Bush signed the American Dream Down Payment initiative into law in December of 2003, HUD has distributed $162 million in funds to over 400 State and local governments. These funds have already helped thousands of families purchase their first home, and more than 50 percent of the buyers were minorities.

The 2006 budget requests $200 million to fully fund the program and help the estimated 40,000 families to become homeowners. The budget also proposes a $40 million housing counseling program to assist more than 700,000 families to become homeowners and to avoid foreclosures on their homes.

To remove one of the largest barriers to homeownership, high down payment costs, the fiscal year 2006 budget proposes a new mortgage program. The zero down payment mortgage program will allow first-time buyers with strong credit records to finance 100 percent of their home purchase price and closing costs. In 2006,

this program could assist more than 200,000 families to achieve homeownership.

The President is also proposing a new single family homeownership tax credit that could increase the supply of single-family affordable homes by adding 50,000 homes annually. Under the President's plan, builders of affordable homes for moderate-income purchasers would receive a $2.5 billion tax credit over the next 5 years. If Congress approves these funds requests, HUD will be able to help an estimated 500,000 families realize the American dream of homeownership in fiscal year 2006.

The fiscal year 2006 budget will make government a better steward of taxpayers' money through reform of the Section 8 housing choice voucher program. In fiscal year 2001, the three Section 8 programs consumed 43 percent of HUD's annual budget. That percentage has increased 57 percent in fiscal year 2005. The rate of increase, combined with the extremely complex set of laws and regulations, has resulted in a program that is difficult to sustain.

In the past, funds were distributed to public housing authorities for a specific number of vouchers based upon the number of units leased. Congress recently converted the unit base allocation system to a budget-based system. However, for the budget-based system to work, program requirements must be simplified and PHAs must have greater decision-making flexibility. Building on the changes in the 2005 Consolidated Appropriations Act, the administration will submit authorized legislation to this committee to implement this reform.

The Section 8 program fulfills an important component of HUD's mission. I am committed to it and to its success.

Throughout our budget, HUD will strengthen its efforts to assist those most in need—adults and children from low-income families, the elderly, those physically or mentally disabled, victims of predatory lending, and families living in housing contaminated by lead-based paint hazards.

This administration is committed to ending chronic homelessness and has aggressively pursued the policy to move more homeless families and individuals into permanent housing. The budget provides for a record-level resource of permanent, supportive housing for homeless individuals. This budget provides $1.4 billion for homeless assistance grants; 25 million will go to the prison reentry program.

The budget also proposes 39 million in funding for the HUD fair housing program to ensure that everyone has accessibility to living environments that are free from unlawful discrimination.

The President's budget also proposes new initiatives in a consolidated program such as the CDBG program into a more targeted, unified program that sets accountability standards in exchange for flexible background use of funds. This new initiative will be housed within the Department of Commerce.

All of us share the goals of creating housing opportunities for more Americans. We have done great work over the past 4 years, and we should be proud of everything that we have accomplished together. But we should not be satisfied because our work is far from completed.

I look forward to the challenge ahead and will seek to have open communication with everyone on this committee. I would like to thank the members of this committee for your support, and I welcome your guidance as we continue to work together.

[The prepared statement of Hon. Alphonso Jackson can be found on page 72 in the appendix.]

The CHAIRMAN. Thank you, Mr. Secretary.

Mr. Secretary, let me first begin by thanking you for all of your efforts over the last few months and cooperating with the committee on a number of issues.

Let me begin with the overall question on the CDBG and the transfer of that program to Commerce. How do you envision that working? That is, what kind of changes—if it was enacted, what kind of changes would we expect other than the program itself being moved over to Commerce?

Secretary JACKSON. I would say, Mr. Chairman, that all of the legislation has not been worked out yet. From our perspective, the budget was $4.2 billion that will be shifted to Commerce. We will keep certain programs, the home programs, the shop program, the homeless program.

What will be entailed once it comes to Commerce, right now I am just not in a position to be able to discuss that with you. I think that they are working out the legislation at this point.

The CHAIRMAN. Well, the figure you cited, the 4.2 billion, is that correct?

Secretary JACKSON. Yes, that is what we are zeroing out of our budget to go to Commerce.

The CHAIRMAN. And what was the number for the last fiscal year?

Secretary JACKSON. I think it was just about 4.2.

The CHAIRMAN. It was about the same?

Secretary JACKSON. It was 5-point something with all of the programs. But all of the programs are not going over, just the 4.2.

The CHAIRMAN. So counsel informs me it is 3.7 billion is the number that would go to Commerce. And that would reflect, then, some of the programs that you would retain?

Secretary JACKSON. No. We are zeroing 4.2 out of our budget. I can't tell you what is being sent to Commerce. We know that we are taking 4.2 out of our budget.

The CHAIRMAN. Counsel informs me that when you add all of the programs together and move it to Commerce, it is 3.7. So it appears to be a significant cut in the service. I just wanted to get that clear in my mind.

Do you find, in your experience, an overlap or duplication of Federal efforts to fund community development? My sense is that the effort by the administration to make these structural changes was at least what appeared to be a recognition that there were some duplicative efforts between HUD and Commerce, or at least among the programs at HUD. Is that your sense?

Secretary JACKSON. If you are talking about community development, no, there is not duplication. If you are talking about economic development, that was the purpose for consolidation, and the economic development programs were being shifted to Commerce to better coordinate it.

It is important to understand that, yes, there were duplications in the economic development programs—some in Agriculture, some in HUD, some in Commerce. And so, in an effort to consolidate, the decision was made that the best place to consolidate the program was at Commerce.

Now, it is important to understand that we made our logical argument as to why it should be at HUD, but I do agree with the administration that the program should be consolidated in one spot. And the decision was made to consolidate it at Commerce.

The CHAIRMAN. Let me ask you about RESPA reform. That has been an issue that has been on and off the table at HUD for some time. Your predecessor got inside the red zone, I think, and ran out of time or fumbled or got sacked, but—I sound like George Allen—it was handed off, right.

Since you are now the heir apparent, what kind of plans do you have in terms of that RESPA reform?

Secretary JACKSON. We believe that we will be starting—we have been doing some analysis over the last 90 days. As I committed and promised you and Chairman Shelby, we will be coming to you within the next 60 days to get your input and the input of the ranking members as to what is the best approach. Once we get that input, we will go back to the industry and let the industry group make their comments on that.

I can assure you that once that is done, we will not hold the bill in abatement as we did last time; we will get it out very quickly with the help of—with your help and support and your input. I still stick to that. I don't think that we should in any way deliver your bill in a vacuum; I think that your input is important.

My basic belief is that if we can get a consensus of 75 to 80 percent of the people in the industry and your consensus, we can get a bill that will pass and address the needs of making sure that the closing cost is resolved very quickly.

The CHAIRMAN. I would hope so. There is clearly a need for drastic reform in the closing process. Any of us who have practiced law and been involved in closings can cite chapter and verse about the complexity and the total confusion by the client, by the homeowner to be a homeowner. And anything we can do to simplify it and to make it more transparent and to have kind of apples-to-apples comparisons on costs would be incredibly important for the consumer.

And I think by your effort to work with the Congress, it improves the chances dramatically that we can get a good proposal out there that can pass muster and have a very, very positive influence on the home-buying market. So we thank you for your efforts, and we are glad that you are pursuing that in that regard.

The gentleman from Massachusetts.

Mr. FRANK. Thank you.

Mr. Secretary, on the details—not even the details, the specifics—when are we likely to get them on this moving and consolidation of all of the programs?

Secretary JACKSON. I think, Mr. Ranking Member, we have—as stated by Chairman Oxley, we are going to have a hearing with Secretary Gutierrez. At that point, I hope we will have some of the details as to——

Mr. FRANK. That hearing is in the middle of April, and you hope we will have some of details. If you are serious about this, it is to go into effect October 1st. I guess I would—if gambling were legal, because I am very law abiding, I would have a pool. What are we going to see first? The details on this or the specifics on Social Security?

The only problem is nobody would join the pool because nobody would win.

Let me just also say, I think you are talking about major changes affecting many, many departments—Health and Human Services, Treasury, Agriculture, HUD and Commerce—and it is to be in effect by October 1st. This does not have, to me, the ring of seriousness when we are being told that we may have some of this specifics in the middle of April.

By the way, on the point that the chairman raised, the total of all of the programs that the budget proposes to consolidate and send to Commerce in the current fiscal year is 5.66 billion. They are budgeted in Commerce at 3.7 billion, so that is a 34 percent cut, if it were proportional.

It includes not just the CDBG, but the community service block grant, which is generally known as the poverty program, Economic Development Administration, so we are talking about a very, very substantial cut.

But now, on homeownership, you talked about a plan for zero down payment. Is that the one that we passed last year that the Republican leadership wouldn't let come to the floor? Do you know something we do not know about a change of heart? Is Mr. Delay becoming somewhat—you know, you guys get together in Texas and chat about that?

Secretary JACKSON. Congressman Frank, no, it is the one—we did bring it to you last year.

Mr. FRANK. We passed it last year in a bipartisan way, and the Republican leadership—the chairman put it up and the leadership of the House of Representatives wouldn't let it come to the floor. So we ought to be clear about that.

I don't know, have you spoken to the majority leadership about this in the House?

Secretary JACKSON. We know that last year——

Mr. FRANK. Have you spoken to them?

Secretary JACKSON. Not yet.

Mr. FRANK. I am seeing a pattern, frankly, that doesn't impress me with your seriousness.

We passed a bill; the Republican leadership wouldn't even let it come up, and you do not talk them about it.

Secretary JACKSON. I think the Congressional Budget Office had disagreements with us, and we are speaking with them now.

Mr. FRANK. So you weren't allowed to talk to the House leadership because the Congressional—but now, this is part of the President's budget?

Secretary JACKSON. Yes.

Mr. FRANK. Did it go through the Congressional Budget Office?

Secretary JACKSON. No.

Mr. FRANK. So this budget submission is not approved by the Congressional Budget Office? Were they——

Secretary JACKSON. It is a proposed budget that must be approved by Congress.

Mr. FRANK. Yes, but I assume it is also submitted through the CBO.

Are you telling me that CBO has not signed off on this particular proposal? I would find that very odd. Is that the answer?

Secretary JACKSON. Yes.

Mr. FRANK. They have not. So you have sent us a budget submission that was not cleared with the Congressional Budget Office?

How about OMB? Have they cleared it?

Secretary JACKSON. Yes, they have.

Mr. FRANK. So your problem is still going to be CBO. And you think they were just wrong about the number?

Secretary JACKSON. We had a disagreement. We think it is a viable program. They perceive that it is not.

Mr. FRANK. But couldn't you ask the Republican leadership to do it anyway? I don't understand why you didn't talk to them——

Secretary JACKSON. I was asking all of the leadership in the House to pass it.

Mr. FRANK. We did it. It is being blocked by the Republican leadership in the House.

Let me ask you now on housing discrimination. That continues to be a serious problem.

Secretary JACKSON. I think housing discrimination is a serious problem, and we will continue to address it. I don't think that housing discrimination is as rampant as it has been in the 1940s, 1950s, 1960s; but, yes, I think it is still a problem today.

Mr. FRANK. Well, has it gone down substantially from—do you expect it to go down substantially because you are cutting the budget for the fair housing budget? The fair housing budget is 46 million in the current fiscal year, and you are proposing 38 million.

Now, 8 million is not a lot of money, but neither is 38 million, to be honest with you. And I do not understand in this budget of so much money, why you are cutting—why are you asking us to cut the budget for fair housing? You are asking us to cut both the amount that goes to the local groups that do these initiatives, that work with us, and you are asking for a cut in your own budget for administering fair housing.

What is the basis for that? Do you expect a 15 percent reduction in discrimination? That troubles me.

Secretary JACKSON. No, Congressman Frank, we do not expect a reduction. But I will say this to you we are prioritizing, and clearly one of the priorities is the Section 8 voucher program. As I have said to you before and to the chairman, it is eating away at our budget. In 2001, it was 43 percent of the budget. It is 57 percent.

We added $1.1 billion to make sure that the Section 8——

Mr. FRANK. I am asking you why you are cutting $8 million out of fair housing. Do not blame Section 8.

Secretary JACKSON. I am not.

Mr. FRANK. Why are you cutting——

Secretary JACKSON. I am telling you the facts, if I may speak.

Mr. FRANK. You may speak to my question. What is the justification for cutting $8 million out of fair housing?

Secretary JACKSON. I am saying to you that you will see cuts in a number of programs at HUD because we are in the process of prioritizing Section 8.

Mr. FRANK. So what you are saying then is that you are cutting the $8 million out of fair housing not because it is not needed, but because you are—it is not high enough on your priorities to get spent?

Let me ask you a similar question about housing for the disabled; this one troubles me. And the President talks a lot about faith-based. Faith-based groups already are doing a lot in the housing area.

This notion that somehow they cannot get money, only people who do not know anything think that faith-based groups are not terribly active in housing. One of the big programs to them is housing for the disabled. You are proposing to cut it by more than half. What is the justification for cutting construction of disabled housing? I know people believe in the market. Do people really believe that the market is going to be able to take care of all of the need for disabled housing?

Secretary JACKSON. First of all, Congressman Frank, there are 40,000 people we are serving right now. Units we are serving, we will continue to serve. There are others in the pipeline that we will serve. We are cutting 1,500 out of this budget.

But, again, I will reiterate to you that we had to make very hard decisions, and one of those decisions was, were we going to fund the Section 8 program fully? Were we going to fund the operating subsidy more fully? And we made a decision that those were critical.

Mr. FRANK. I do have to say one last thing: But that is assuming that the tax cuts stay in place and the money to go to Mars stays in place, so that what you are then telling me is that the administration gave you too little money, because of its commitment to spending money elsewhere, send people to Mars and these major tax cuts, and as a result—and I will close with this—I thank you for not trying to defend these on the merits.

You are not saying on the merits that you are cutting fair housing or on the merits you are cutting housing for the disabled, but what you are saying is that within the budget the administration gave you, you do not have enough money to meet all of these needs. I think that is probably true.

Secretary JACKSON. That is not what I am saying. I am saying that the Section 8 budget is overwhelming the HUD budget.

Mr. FRANK. That is because you got too little.

Secretary JACKSON. We could debate this all day, Congressman. The budget is clear that——

Mr. FRANK. The budget that you were given by the administration, they gave you too little money to take care of all of these things.

The CHAIRMAN. Mr. Ney.

Mr. NEY. Thank you, Mr. Chairman.

Mr. Secretary, I wanted to see if you had a comment on why you believe that Commerce could—this is something that is asked quite a lot in the district I represent and across the United States—that Commerce could provide better direction or assistance to CDBG?

Secretary JACKSON. Mr. Chairman, as I said to the ranking member, we made our case. We believe that clearly Housing and Urban Development could manage the program. The decision was made, and we agreed, that the programs must be consolidated. And the decision was made to consolidate it at Commerce.

I think that our handling of the community development block grant program has been good. Are there problems? Yes, there are problems. But I think we have handled the program in economic development very well. I am in agreement that it should be consolidated, and the decision was made to consolidate it at Commerce. And clearly I think it should be consolidated, without a doubt.

Mr. NEY. I just wonder, you know, if it will stay intact. I mean, if it went from HUD as it is over, some of the philosophy of Commerce might be strictly in the job creation. The CDBG is used in other areas beside the creation of a job, as you know. And sometimes people might criticize why it is used, but some communities need a fire truck which is available, the paramedics, you know, the units save lives.

Some people say, Well, why do they buy it? Well, some communities, that is what they need. Some communities need infrastructure, some communities need water, other things.

I just wonder, if this goes over with no detail or direction, it might get caught in a different flavor of a different agency. That is why I wondered if that had been talked about, if it went—if it is a matter of consolidation or went intact. That was one concern I wanted to raise.

Due to the limited time, I just wanted to ask about the housing goals for the GSEs. Do you think that it provides enough flexibility for Fannie and Freddie to be able to respond to the task, housing goals, and to the market?

Secretary JACKSON. Yes, Mr. Chairman. I have had the opportunity to meet with the acting CEO and the chairman and CEO—acting CEO of Fannie Mae and the chairman and CEO of Freddie Mac. We have had extremely positive discussions, and what we have said is that we believe that these goals are attainable.

But if it is clear that they are not, we are flexible and we will work with them. But until it is demonstrated that they are not attainable, we believe that they are; and in fact, we took input from the industry and from professional groups. And initially we had the goals set at a higher percentage; we lowered that percentage because clearly it was demonstrated to us by the industry group and the professional group and Fannie and Freddie that they might be out of line with the ability to accomplish those goals.

So we feel very comfortable that those goals can be accomplished. But if we are wrong, we are flexible and will work with both agencies.

Mr. NEY. We all know the controversy of Fannie and Freddie and that will be twisted and bandied and thrown about this country, I am sure. But putting that aside, as this committee eventually, you know, takes on the job of regulators, et cetera, we have got to watch the housing goals, make sure that the system is not all in chaos and that people can still, you know, be able to be part of what the Congress has supported for years, which is, you know, to have the housing.

So I think—as we go along the process, I think it has to be carefully, always watched and analyzed as to what we are doing.

Another question I had—you may not be able to answer this maybe; with the section that handles Native Americans you could, but last year we passed the Homeownership for Native Americans Act. It was sponsored by Mr. Renzi of Arizona, supported by Mr. Matheson, and also our ranking member, Congresswoman Waters. That act made changes to Title 6 of the Native American Housing Assistance and Self-Determination Act of 1996, and it tried to improve the tribes' access to capital by increasing the guaranteed authority for the Title 6 loans.

Now, I am glad to see the President's budget does include an increase in the request for that credit subsidy for this program. I think it is a vital program. The increase in the credit subsidy, though, is a bit puzzling. This came as a result of a meeting with some of the tribes that are dealing with this issue.

The increase to an already high credit subsidy rate reduces the amount of available guaranty authority that would otherwise be available for building desperately needed housing units.

We went out to the reservations. It is unbelievable. I don't think there have been any defaults, to the best of my knowledge, in the last decade. So I wonder what the basis would be for the high and increasing credit subsidy rate.

So, on one hand, we acted, and on the other hand, that increased subsidy rate may not allow the program to work as good.

If you cannot answer this, I will follow up with you.

Secretary JACKSON. I will be happy to get back to you to answer that.

Mr. NEY. Thank you.

The gentlelady from California.

Ms. WATERS. Secretary Jackson, I think you can conclude, based on my testimony, that I am very upset about CDBG for a lot of reasons. Not only is it the last standing block grant program from the Federal Government for these 501(C)(3)s and nonprofit agencies that are providing services for at-risk youth and seniors, et cetera, et cetera; we have got housing money, and in a district like mine, you have small cities who depend on this for some of their infrastructure support.

I know that you talked about setting priorities, but why did you allow CDBG to be consolidated in the way that you are proposing to do it and to be transferred and cut? Was it because you had too much money and you didn't need any more money? I mean, they cut you because you had more than you needed? Or was your money mismanaged? Did you do a good job?

And can you say to this committee that there is not a need for all that you had, plus more? I mean, explain to me this decision to cut and transfer. And what did you do? Did you fight for CDBG? Was this one of your priorities? What did you say to those people—I don't know who they are—who did this?

Secretary JACKSON. Thank you very much for the question, Congresswoman.

As I said to the ranking member, we made, I think, a very strong case as to where the economic development should be. The decision

was made that it would be consolidated. We agreed. We think the program should be consolidated.

Ms. WATERS. Are you talking about programs like Section 108?

Secretary JACKSON. Section 108?

Ms. WATERS. I am talking about CDBG. Are you putting that in the category of economic development programs?

Secretary JACKSON. Yes, because if you realize, the community development block grant money, even that 1.1 million is for housing, 1.4 million is for infrastructure, it is still always related to economic development. That is why we tacked with the empowerment zones, the RC zones, we felt that clearly it is there.

We believe, as I said to you before when you asked the question, we made our case. Do we believe that consolidation of all of the economic development programs as they relate to developing communities should be in one place? Yes, we do.

Did we think that we should be the agency that administered the program? Yes. We made our case.

But I do believe in the final analysis that the key was consolidation, not that we had not done a good job, not that the program was not working. You can ask the people in the industry; you can ask professionals.

Are there problems with the program? Yes, there are problems, and we were in the process of correcting those problems, but the key to it is, I still believe——

Ms. WATERS. You had problems with CDBG?

Secretary JACKSON. Of course, we had problems.

Ms. WATERS. Well, the first thing that I would differ with you on is allowing anybody to categorize the programs as economic development programs, because that makes it easier for them to talk about going into Commerce that is responsible for economic development.

But as I look at CDBG, these funds are used for a wide array of activities, including housing rehab loans and grants to homeowners, landlords, nonprofits and developers, new housing construction, down payment assistance, other help for first-time home buyers, lead-based paint detection and removal, the purchase of land and buildings and construction—on and on and on.

This cannot be categorized simply as economic development, which would make it more likely to be transferred, and that argument certainly should have been resisted.

And I don't know why this consolidation someplace else—they were already consolidated in HUD, were they not?

Secretary JACKSON. We had all of the programs there in HUD.

Again, Congresswoman, I understand what you are saying. I can't disagree with you that the programs were there, but I do believe, in the final analysis, that many of the programs, if you see the name of the programs going over to Commerce and strengthening America's economy and communities, so it is taking into account community development.

My position is still the same. We made what we thought was a logical argument. But in the final analysis, I still believe that all of those programs which are spread out over three or four different agencies should be consolidated, and the decision was made to consolidate it at Commerce.

The CHAIRMAN. The gentleman from California, Mr. Miller.

Mr. MILLER OF CALIFORNIA. Thank you, Chairman Oxley.

Welcome. It is good to have you here; it really is. I know you not to be a shy man; let's put it that way. Having had numerous conversations with you, you are creative. One thing I do know you understand is there is an affordable housing crisis in this country, and I think you are doing a good job.

Secretary JACKSON. Thank you.

Mr. MILLER OF CALIFORNIA. I know you get beat up by a lot of people, but I really think you are doing a good job. But there is a difference between economic development and community development. When you go talk to your cities and they talk about economic development, they are looking for Wal-Marts and Costcos and those types of things. When we talk about community development, we are talking about housing. There is a difference. As far as I am concerned, there is a huge difference.

When you talked about GSE oversight, I think you do a great job. I don't think you should be removed from that authority; you should have it. If they want to do something with fiscal oversight, we will talk about that.

But CDBG funds, I look at what my city uses them for: for home improvement programs, rehabilitation programs, senior programs, independent living programs. I mean, they will use them, and I think they are really, really necessary for that.

Now I am going to ask you a serious question here, and it is not meant to be teasing you, but do you believe in your mind you are doing a bad job encouraging basic community development?

Secretary JACKSON. Absolutely not.

Mr. MILLER OF CALIFORNIA. I agree 100 percent. That is the problem I have. You know, if we look at the issue, in your view there is currently overlap. But is there currently significant overlap or duplication of Federal efforts in community development? I am talking about significant. There is always overlap of some form, but do you think they are really significant?

Secretary JACKSON. No, There is not significance in community development per se.

Mr. MILLER OF CALIFORNIA. Exactly. I think you are doing a good job at it, and I don't see any reason at all to send it over to Commerce.

Consolidating programs makes sense if there is significant overlap, but you are always going to have some form of overlap. The benefits of CDBG programs is the flexibility with which the communities use the money. Do you think there is going to be a change in that flexibility if it goes over to Commerce rather than from HUD and the oversight?

Secretary JACKSON. Congressman, I cannot honestly answer that question. I think that the legislation is being written as we sit. The decision, as I have said to Congresswoman Waters, was to consolidate. And I do believe—can you hear me?

Mr. MILLER OF CALIFORNIA. I hear you fine, sir.

Secretary JACKSON. Okay. I do believe that they were overlapping in certain programs and that we should consolidate. As I said before, we made a——

Mr. MILLER OF CALIFORNIA. You are stuck. You are stuck on this one, my friend. But there is not significant overlap. And the biggest problem I am having is you are doing a great job, and I just don't want to look at somebody doing a good job and say we are going to take it away from you and let somebody else mess it up. And I know you understand the development needs of this country. I know you do. You understand what communities are going through, although some people beat you up like you don't know. You do know, and that is the real problem.

Why is the Department of Commerce more able to provide efficient and effective community development assistance to our communities than you are? Give me one or two reasons why they are better able to do that?

Secretary JACKSON. I don't think it is a matter of whether they are better. It is a matter that a decision was made to consolidate, and I agree that the programs must be consolidated.

Mr. MILLER OF CALIFORNIA. Okay. Let's not use consolidate anymore. I am going to talk to my friend. We are not going to talk about consolidation.

But I am just having trouble here, Secretary Jackson, because you are doing a good job, and I am particularly talking about programs that are significant for our community, CDBG. From our community leaders, those elected city council members who are trying to provide for the needs, they are the people who have to face the community twice a month, at least, in public hearings, and they know what the community needs. I have not heard a greater uproar than the concept of what is happening today. And what I don't want to have is a perception created that you are the one causing this problem, because you are not. I think we need to look at this issue because there is not a better use of Federal dollars locally than, I think, CDBG when it comes to trying to help people who need the help out there.

So I am having a real problem understanding why we are doing what we are doing. You are doing a real good job trying to cover yourself so you don't say the wrong thing because you are kind of stuck, but we need to stop talking about consolidating and talk about quality, and I think you are doing a quality job.

I am glad you are the Secretary. I think you are very capable. Looking at your history and having talked to you and understanding your expertise, you are doing a tremendous job. I think we need to seriously look at retaining the current oversight that we have and not throw the baby out with the bath water because somebody thinks it might be a good idea.

I yield back. Thank you, Mr. Chairman.

Mr. CHAIRMAN. The gentleman yield backs.

The gentleman from Vermont, Mr. Sanders.

Mr. SANDERS. Thank you, Mr. Chairman; and, Secretary Jackson, thanks for being with us today.

Mr. Secretary, in my view, my view, we have a major housing crisis in this country. More than 14 million Americans are paying over 50 percent of their limited incomes in housing; 3.5 million people in this country will experience homelessness this year, including 1.3 million kids and a half a million veterans. One-third of the entire country lacks safe, decent or affordable housing. On average,

families across the country must earn more than $15 an hour—almost 3 times the national minimal wage—to afford a two-bedroom apartment. So my first question to you: In your judgment, do we have a housing crisis?

Secretary JACKSON. I will say this to you, Congressman, I think that reasonably in certain areas we have a housing crisis. If we talk about the east coast, where you are from, or the west coast, where Congresswoman Waters—we do have a serious crisis. I think if we talk about middle America, southwest, southeast——

Mr. SANDERS. Fair enough, thank you. And I would agree with you. Certainly there are some parts of this country where there is not a housing crisis. But given the fact that in the west coast, in the east coast, in many parts of our country there is a major housing crisis, why, in your judgment, will the President of the United States give hundreds of billions of dollars in tax breaks to the wealthiest 1 percent and yet slash the overall housing budget by more than 11 percent?

Secretary JACKSON. Congressman, if you look at the budget, taking into consideration the shifting of the $4.2 billion to Commerce, we are up $800 million in this budget overall. We have increased the Section 8 program by $1.1 billion, the operating subsidy by $1 billion. And, yes, we have had to cut in other areas, but overall the program is up. So the President is very, very concerned, and he has demonstrated that by adding additional money to the——

Mr. SANDERS. Well, Mr. Secretary, in all due respect, I don't believe that is accurate. My understanding is the CDBG program will be reduced by 35 percent, resulting at a $1.16 billion cut in funding for low-income housing, including a $9 million cut from my own small State of Vermont. Is that true or is that not true?

Secretary JACKSON. What I know is that we zeroed out of our budget, Congressman, $4.2 billion, from my perspective, to be sent over to Commerce to work with Community Development Block Grant Economic Development. I cannot comment on what is in the present Commerce budget. I don't know.

Mr. SANDERS. My understanding is the Public Housing budget would receive a $270 million cut. I don't want to say anything that is inaccurate.That is my understanding.

Secretary JACKSON. Well, that is the capital budget, but the overall operating subsidy is up by a billion dollars.

Mr. SANDERS. Well, the capital budget is—I think we have a disagreement of fact here. I would yield to Mr. Frank if he has some information that I don't have. We need to get our facts straight here.

Mr. FRANK. Let me just ask you, on the operating budget, what are the numbers—Ms. Schecter, could you tell us, what is the operating budget in the current fiscal year and what is your proposal? You said it is up a billion, the operating budget for——

Secretary JACKSON. It is $2.4 billion at this present time, and it goes up $1 billion.

Mr. FRANK. Well, yeah, our understanding is the calendar is shifting for public housing funding, isn't that correct?

Secretary JACKSON. Yes.

Mr. FRANK. Now when you say there is a billion dollar increase, does that correct for the shift in the calendar?

Secretary JACKSON. Yes, it does.

Mr. FRANK. Not according to our figures.

Well, I guess we will put this out later, but our sense is that the increase you are claiming is based largely on the effect of the shift in the calendar, and when you correct for that, we do not have that increase. But I think we will ask that that be made public. We will put the documents out.

Mr. SANDERS. Well, I do think it is important that we understand we are talking apples to apples here. But my understanding is that in my own small State President Bush's proposal to block grant and cut the Section 8 program, if enacted, would result in a thousand fewer families in the State of Vermont who would receive affordable housing assistance through Section 8. That is a heck of a lot of families in a small State.

So let me conclude by asking you this, Mr. Secretary. Last year, along with Barbara Lee, among others, many others, we introduced the National Affordable Housing Trust Fund, which ended up with 215 co-sponsors and the endorsement of over 5,000 organizations. That program would build, preserve and rehabilitate at least one and a half million affordable housing rental units over the next decade. How do you feel about an effort like that?

Secretary JACKSON. My position is that if Congress so desires to have a program and it is in HUD, I would be happy to implement it.

The CHAIRMAN. The gentleman's time has expired.

Mr. SANDERS. Thank you.

The CHAIRMAN. The gentlelady from Illinois, Mrs. Biggert.

Mrs. BIGGERT. Thank you, Mr. Chairman.

Welcome, Mr. Secretary, and thank you so much for the delivery last week to the City of Chicago and its surrounding suburbs of a good news flat package. We really appreciate all that it will be used for in housing in that area.

I wanted to address the question of Section 811 being singled out for a 50 percent cut in this budget. I have an organization in my district, Trinity Services—it is only one of many wonderful organizations that I have—but it has operated since 1950 and provided housing and other vital services to disabled residents in the community. I am concerned that—I know that for the past 8 years Congress has allowed HUD the discretion to direct up to 25 percent of section 811 funding for tenant-based rental assistance, as opposed to capital advanced grants and budget-based assistance being administered by non-profits. But my concern is, with the programs like this that really have provided services for those that are disabled, that are not quite ready to be off on their own, I am concerned that the only availability will be the vouchers. Does that mean that these vouchers will only go to the tenants and not to organizations such as Trinity who really have constructed units and group housing for these groups—for these people?

Secretary JACKSON. I am sorry, Congresswoman. No, we will continue to support all of the units that are in place today and to honor the Section 811 vouchers that already exist.

What we did is in this budget, it was 1,500 units that we zeroed out of this budget, but it will in no way affect the ongoing of the program.

Mrs. BIGGERT. But does that mean just the 1,500 that were being proposed for this year?

Secretary JACKSON. Yes, the 1,500 of new construction.

Mrs. BIGGERT. Okay. And does that mean that when money becomes available, the next budget, that you would put that back in? You know, I think this is a high priority, the group housing and particularly the services, and maybe those are given by other, you know, agencies, but still it is like a one-stop shopping where some of these—it goes from, you know, the seniors down to children that are really taken care of under these——

Secretary JACKSON. Yes, ma'am.

Mrs. BIGGERT. Well, I would hope that, you know, you would reconsider that, to look at those houses.

Secretary JACKSON. I would be happy to.

Mrs. BIGGERT. All right. Thank you. And I would yield back.

The CHAIRMAN. The gentlelady yields back.

The gentlelady from New York, Ms. Maloney.

Mrs. MALONEY. Mr. Secretary, I first would like to compliment HUD for the really caring job they have done in the city and State that I represent in the past.

I recall when I served on the City Council after the Carter years, with monies put in the budget, and HUD rebuilt 7,000 new units of affordable housing in 4 years in my councilmanic district alone—but looking at this budget, I just don't see how we can survive in New York, and I am sure my colleagues feel the same across the country. In looking at what has been put forward, all of the city programs in HUD have been reduced by 5 to 10 percent in New York City; and since 2001 the funding for public housing has been cut 30 percent.

HUD now provides many, many valuable programs, code enforcement and lead abatement and other functions in New York City. So my first question to you about the Strengthening America's Communities proposal which you have put forth, can you offer any assurance that the housing code enforcement, lead abatement and other functions that my home city of New York currently uses the Community Development Block Grants for will be continued or permissible under this new program? These were vital housing assistance programs.

Secretary JACKSON. Congresswoman, you ask me, can I make an assurance? No. I would hope that all of these programs would continue to be enforced, and I do believe that they will be, but I cannot guarantee something from another department.

We zeroed out $4.2 billion in our budget to be transferred to the Department of Commerce. The legislation is yet to be written, but it is my belief and hope that, yes, it would continue.

Mrs. MALONEY. Well, hoping isn't good enough. What we have heard is that some of these programs are going to Commerce, but there is absolutely no assurance that they will continue. They are still being worked out. Your proposal reminds me of the Social Security proposal we have before Congress. The Bush administration is saying trust us, but their proposal—you know, how can we trust you?

You are saying trust me, I hope, but there is no assurance. You really need to be more responsible and consistent with this Con-

gress, and you have got to assure us that the housing goals that are currently being served by CDBG will continue to be served. And to sit here and say I hope is certainly not good enough.

It is just—to me—Newt Gingrich, when he came to power, came out and said, I want to abolish HUD. At least he came out and said what he was going to do. With this budget you are almost like termites eating away at the foundation of HUD, which has been an incredibly valuable program in so many ways to the communities that we serve.

I tell you, housing is so important, and you cannot build affordable housing or public housing without a Federal commitment. Localities and States cannot do it. And I don't see it in this budget. Even in the Section 8 that you talk about that you have maintained at the approximate levels, it is still $50 million short of what was expended for Section 8 in 2004 in New York City alone. So I find this budget tremendously problematic.

I would like to also ask you about your Strengthening America's Communities proposal. You consolidate the community development financial institutions and the national community development initiatives. You put those two together. These are the two main ways that local governments attract and leverage private capital into their communities. How do you suggest that these private funds be replaced?

Secretary JACKSON. Congresswoman, I cannot, today, discuss the intricate details of the Strengthening America's Communities proposal. That is over at Commerce being developed at this time. What I can tell you is what we have done in the past with the community development program, which you know and that in the final analysis, as I said before, for consolidation purposes the program is going to Commerce, and we zeroed out $4.2 billion out of our budget.

Mrs. MALONEY. Well, also, you said in your testimony that you were going to consolidate these programs and provide more, quote, economic development programs over at Commerce. So can you explain what administrative changes and what realignment of funds will be great enough to account for the tremendous decrease in funding by $1.6 billion? I mean, I am flabbergasted by this budget; not only do you flat out cut public housing code enforcement, the programs that we use to leverage to get private investment into housing—how do you expect that we are going to meet the needs of the local communities?

The CHAIRMAN. The gentlelady's time has expired.

Mrs. MALONEY. And you have no proof. It is a disaster.

The CHAIRMAN. The Secretary may respond.

Secretary JACKSON. Yes. Congresswoman, as I said, you asked for assurance. I cannot give you assurance of what another department will do because I am the Secretary of Housing and Urban Development. What we did was agreed that consolidation is a necessary occurrence, and the decision was made to consolidate at Commerce. The legislation is presently being written, and I am convinced that it will address many of the issues that you have just enunciated.

The CHAIRMAN. Gentleman from Florida, Mr. Feeney.

Mr. FEENEY. Thank you. And thank you very much, Mr. Secretary.

I tried to follow the lines of the argument very carefully here, and I am afraid I have lost the forest for the trees. Some people are very concerned that you are consolidating things, that budgets aren't increasing rapidly enough, that the burden on the American taxpayer is not expanding fast enough in housing-related issues.

As I recall your testimony, American ownership is at all-time historic high. Not just for America, but is there any other nation in the history of the earth where as high a percentage of people have owned the house they live in or the land that they live on that you are aware of?

Secretary JACKSON. I think that the ownership rate in this country is the highest. There might be another, I think in Singapore. But, other than that, we are far ahead of everybody else in the world.

Mr. FEENEY. Well, based on the big picture forest which I am very concerned about, that you and your predecessor and the Bush administration ought to be very, very proud of what you have accomplished.

We know that there is more to be done. I work with homeless coalitions, for example, in my neighborhood.

But related to that issue, I recognize you may not be an economist, but I am noticing today in the Washington Post that there is concern that in California last year property values increased 27 percent, 20 percent in my home State, some 36 percent in Nevada. Some economists are concerned, actually, about a pricing bubble.

Do you think if we added some enormous subsidies, handouts and other programs that may have been advocated that we do a lot more for, that we may actually be inadvertently incentivizing or encouraging speculative investment and perhaps a pricing bubble that as the Washington Post, in a column by Mr. Samuelson, points out traditionally has been the precursor—these are housing price bubbles—to serious consequences that ultimately lead to recession, perhaps even depression on a global nature? Do you have some concern that overly generous subsidies in some areas may have that possible effect?

Secretary JACKSON. Actually, Congressman Feeney, no. Because I really believe that we have a prime opportunity, and so does the President, to create more little-market housing—some people will say affordable housing—in this country; and I think we can do that by the American Home Ownership Low-income Tax Credit Act by helping developers develop in the urban areas.

Also, I think, too, that probably within the next 5 to 10 years there is still going to be a growing need. What we have seen, since we have seen the increase of home ownership in this country, especially with minorities, is that it is so pervasive, as the Congressman said a few minutes ago, that many people are paying over 50 percent of their income just for rent. So if they can get into a home or we can provide ways of getting them into a home, they are used to paying 30 to 35 percent, that is usually a 15 to 20 percent reduction from a rental unit.

Now that does not mean that in any way HUD is getting out of the rental business or that rental units will not be used, but I

think if we can give incentives to first-time homebuyers, not only do we create good citizens, we create stable environments. We have learned, also, that a child coming up in a home reads 9 percent better, does math 7 percent better.

So if we can, in essence, give a helping hand to those families, we effectively keep them from entering the market of maybe the homeless or public housing. So we will not need as much public housing or as many Section 8 vouchers that we have today. So I think it is important to stress that. Now that in no way diminishes HUD's commitment to subsidize apartment complexes or homes.

Mr. FEENEY. I have got a lot more on this area. We may have some disagreements about the potential risk of overly generous subsidies.

But, finally, while I am into economics, is it your opinion—and I realize it is not your expertise—some urban areas' rent control, enormous regulatory burdens imposed by the locals, and other reasons that are self-inflicted ruins—have contributed to the high cost of affordable or, as you put it, middle cost housing?.

Secretary JACKSON. You are absolutely correct, and I have asked a person on our team to do nothing but look at ways of removing those regulatory barriers.

If you take an example, Congresswoman Waters out of Los Angeles, California, before a home comes out of the ground in California through regulatory barriers you are looking at somewhere between a hundred and $109,000. My position is that clearly moves it out of the middle-market-housing market for fire people, police people, teachers, nurses. So our position is that let's try to remove those regulatory barriers, but the first step—and we are about 60 percent through—the first step of removing regulatory barriers is we need to remove them at HUD; and we are in the process of doing that before we insist that cities and counties and States move theirs.

The CHAIRMAN. The gentleman's time is expired.

The gentlelady from New York.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Secretary, do you think that $1.3 trillion in tax cut is too much of a handout? But that is not my question. My question is about the present budget.

The President's budget, he proposed cutting funding for public housing by 9 percent, bringing the total cost, since the President took office, to $1.5 billion. There is currently a backlog of $21 billion worth of physical improvements needed in public housing, including the repair and replacement of roofs, boilers, windows, and doors that are jeopardizing the health and safety of residents. With cuts to these funds, PHAS will be forced to make extremely difficult budget choices, pitting important priorities against one another while building conditions worsen.

How does the administration expect PHAS to meet quality and safety standards without the adequate resources to maintain their properties and make necessary repairs?

Secretary JACKSON. Well, Congresswoman, as I said before, we have added one billion to the operating subsidy of the public housing budget.

Ms. VELAZQUEZ. Yeah, but that doesn't address the issue that we have $21 billion worth of physical improvements. And when was the last time that you visited a public housing development?

Secretary JACKSON. Probably 2 months ago.

Ms. VELAZQUEZ. And you saw the needs for repairs.

Secretary JACKSON. No, I did not.

Ms. VELAZQUEZ. You did not. I welcome you to come to my district in New York City.

Secretary JACKSON. Well, the public housing development that I visited was in excellent shape.

Ms. VELAZQUEZ. So you think that $1 billion is enough?

Secretary JACKSON. No. That is for the operating subsidy. I truly believe that we have enough in the Capital Fund budget to address the needs of many of the issues that you just said.

Ms. VELAZQUEZ. According to Assistant Secretary Liu, the budget only provides 89 percent of what is needed for full cost reimbursement for public housing operating expenses. My question to you is, are PHAs supposed to perform only 89 percent of the repairs needed in their developments?

Secretary JACKSON. Well, Congresswoman, I will tell you that the backlog of capital improvements in public housing developments are down by about $18 billion over the last 4 years, so I am not sure where your figures are coming from. I know, having ran three public housing agencies, that the issues that we faced in the 1970s and the 1980s and the 1990s are not the issues that we are facing today. And my position is that we are doing everything to make sure that we address the capital needs of public housing agencies in this country.

And you asked a question. The last time that I can remember public housing being funded at a hundred percent, I can't. Out of the three agencies I ran, I can't ever remember it being funded really over 95 percent. So I am not sure, when you ask can they operate off of 90 percent, yes, I operated an agency off of 90 percent.

Ms. VELAZQUEZ. Ninety percent. It is 89 percent.

A crucial element of the success of the Section 8 program is the participating landlords——

Secretary JACKSON. I am sorry. I didn't understand you.

Ms. VELAZQUEZ. A crucial element of the success in the Section 8 program is the participating landlords. With increasingly more Section 8 buildings reaching the end of their 20 year contracts, it is imperative that landlords feel confident in the program so that they will continue to participate and provide a much-needed source of affordable housing. New York City alone is short $50 million of what is needed to fund all vouchers this year, with expiring contracts for nearly 2,000 units in my district. HUD's misguided shift from unit-based funding to an inadequately funded dollar-based system has jeopardized private sector confidence in the Section 8 program, removing critical incentives for landlords to participate in the program.

Secretary Jackson, what concrete steps is the Department going to take to restore landlord confidence in the Section 8 program and ensure their participation moving forward?

Secretary JACKSON. Congresswoman, I think we have. We added $1.1 billion to the present Section 8 voucher program. I don't think there is anything more resolute than giving monies to carry out the program. But the question becomes, can we continue to increase the program at its present rate? I do not believe so——

Ms. VELAZQUEZ. My question is about the confidence coming from landlords regarding the program. Every time I go back to my district, we have to deal with HUD and landlords who do not want to continue in the program because of lack of confidence in the program. And isn't it true that Judith Kennedy, president of the National Association of Affordable Housing Lenders, was quoted last May in a Bond Buyer article saying, and I quote, "Because HUD's announcement at least partially validated the concerns of rating agencies and landlords about the appropriations risks associated with the voucher tenants, some of the harm may be irreversible." and that HUD, and I quote, "just in essence validated rating agencies and underwriters' fears that you cannot trust government subsidies." Irreversible, Mr. Secretary.

I ask you again, how will HUD attempt to rectify the harmful effects of its poor management decisions?

Mr. NEY. [Presiding] I should note the time of the gentlelady is expired, but if you would like to wrap up.

Secretary JACKSON. Sure. Congresswoman, I will say this. If it is irreversible, you cannot prove it by the number of bond-issuing companies coming to public housing agencies today wanting to do their bonds, or the number who are willing to underwrite the Section 8 program in many housing authorities.

Ms. VELAZQUEZ. And there are a number of landlords who do not want to continue in the program.

Secretary JACKSON. Well, I can tell you, in your city alone, you have got people at your housing agencies willing to do it tomorrow, and I am not telling you what I think, I am telling you what I know.

Mr. NEY. The time has expired.

The gentleman from Ohio, Mr. Tiberi.

Mr. TIBERI. Thank you, Mr. Chairman.

Mr. Secretary, thank you for your leadership. Thank you for your support of Columbus, Ohio's unique approach to dealing with chronic homelessness. It has been great to see your leadership there. And thanks for your support on the Zero Down legislation as well. As a realtor, it has been great to see people react the way they do in home ownership. It helps communities, and you know that, and thanks for your support there. And thanks for your commitment on dealing with an FHA issue in Columbus, Ohio, dealing with first-time homebuyers as well. I look forward to working with your staff.

About a year and a half ago, Chairman Ney and I had a field hearing in Columbus, Ohio, and out of that we requested a GAO report on CDBG, which has gotten a lot of attention here for another reason. Our concern stems from the fact that in Columbus, Ohio, the Mayor and City Council testified at that hearing that Columbus was the largest city in Ohio—is the largest city in Ohio and was not getting as much CDBG money as some of the other cities

in Ohio that are older cities than Columbus. Columbus has seen exceptional growth in the last two decades.

I will give you an example. St. Louis, Missouri, with a population of around 350,000, is the 49th largest city in the U.S. In fiscal year 2001, St. Louis received over $28 million in CDBG money. Columbus is the 15th largest city in the Nation, population of over 700,000, double, received about $$8.8 million in CDBG. Similar discrepancies can be found in other cities who are smaller than Columbus and whose funding is greater than Columbus with respect to CDBG.

Why do you think cities that are significantly smaller than Columbus are receiving much more, when Columbus' poverty statistics are similar to these cities that are half the size?

Secretary JACKSON. I understand, Congressman Tiberi, your concern, and let me say this. It is because of the formula that was set by Congress; and in this formula it is based on poverty, growth and age of housing in the communities. When you look at a city like St. Louis pre-1940 housing, you have a substantial large number of that in that city. If you look at Columbus—which I used to visit frequently when I ran the utility company—it is basically a brand new city in the sense that you have a very growing market now and clearly a very viable—and if I remember distinctly, it is the largest city in Ohio.

Mr. TIBERI. It is.

Secretary JACKSON. That is why we did an in-depth analysis and study—that we have submitted to the public now and to you all—looking at four different alternates to be able to address the community development needs of each of these cities to be more equitably distributed between the cities. Right now, you are absolutely correct. It is just based on poverty, age of housing and the growth of the city.

So there are a number of iniquities that exist in cities, but we think that with the study and the proposal that we have submitted to you all and at the request of Chairman Ney, I think we have—the four alternates that we have given will address that issue.

Mr. TIBERI. That is great.

One other question, Mr. Chairman.

The issue of Section 8 has come up, and I don't know if the statistics are on the top of your head or not, but one of the things that we have seen is that, over the last several years that I have been here, is the amount of money spent on Section 8 has increased significantly. Can you, off the top of your head, tell us, since you have been at HUD how significantly Section 8 has taken a bigger piece of your budget?

Secretary JACKSON. Sure. Congressman, we have gone from funding Section 8 at about 42 to 43 percent to 56 percent; and if we include the project-based subsidy, it is about 60 percent. So it is taking about 60 percent of our budget, and that is at the perils of other programs. I know people have said, well, it shouldn't be. You are underfunded. No, it is not that. The program could not continue to grow at the rate that it is growing. That is the real issue.

Secondly—which some people refuse to deal with—is that we are not serving more people on this program. We have an imaginary cap that 75 percent of the recipients must be 30 percent or less the

median, which means we are not only paying their rent, we are paying all of the additives to that, utilities and others. So we are not serving more people. Landlords are consistently going up in the rent, and what we found out is that in many of the urban areas there is a great disparity between what landlords are charging and what the median rent is for that specific area.

So I am saying, let us go back to where I was the last time that I ran a housing authority in 1995, back to budget base. I was given a budget, and I had the flexibility of serving as many people as I could. That is, some people were at 30 percent of median, some were at 50 percent of median, some were at 60 percent of median. Now we are over 80 percent. And clearly what we had——

Mr. NEY. The gentleman's time has expired.

Secretary JACKSON.—which I think it important, is we had a turnover in Section 8 at that point, pre-1998, at about 3 years, 3 and a half years. Today it is about 8 years, and we are serving less people.

Mr. TIBERI. Thank you.

Mr. NEY. The gentleman's time has expired.

The gentleman from North Carolina, Mr. Watt.

Mr. WATT. Thank you, Mr. Chairman.

Thank you for being here, Mr. Secretary.

You referred to some legislation that is being drawn at Commerce on several occasions, and I will just express my hope that you are involved in putting HUD and the prior programs of HUD in play as part of those discussions and that it is just not Commerce that is doing this. I assume that you are involved in that?

Secretary JACKSON. Yes, Congressman Watts.

Mr. WATT. Thanks. Okay. And I would also express my hope that that process moves quicker than the process that—you all told me a couple of years ago the process was going to lead to some successor legislation that was going to replace Hope VI, which I still have not seen. And I am—you know, I am beginning to turn blue here, if I keep holding my breath for it. So I hope you all are still working on that. Are you still working on legislation that would come up with a program that would replace Hope VI and do that, or was that going to Commerce, too?

Secretary JACKSON. No, that is not going to Commerce. We are still working on it.

Mr. WATT. Okay. So I am glad to know you all consider that community development rather than economic development.

In the meantime, according to the information I have, in 2001 HUD issued the Hope VI notice of funding availability approximately 4 months after Congress appropriated the funds; and, unfortunately, in 2002, 2003, 2004, the NOFA didn't come out until 8 or 9 months after the funds were available, so I am a little worried about what the status of the Hope VI funds appropriated for fiscal year 2005 is.

Is there going to be a NOFA for the funds that were appropriated, even though you all—even though the President's budget proposal confiscates those funds back? Or are you just going to assume that that is going to happen? Can you tell me the status of the NOFA for 2005 funding?

Secretary JACKSON. We expect the NOFA to be out in March. Clearly, it was allocated in the 2005 budget, and so I intend to put the NOFA out and to get responses and to evaluate those responses.

Mr. WATT. Now what impact will that have, then, on the President's proposal to reclaim those? I mean, he has rescinded those funds in his proposed budget. If you put a NOFA out, will that trump his rescission, or will his budget proposal trump your NOFA?

Secretary JACKSON. Congressman, that is a proposed budget——

Mr. WATT. I understand that, but I am just trying to figure out which ones—you are putting out your NOFA. I assume if people submit proposals in response to that NOFA, that will be funded, is that correct?

Secretary JACKSON. That is correct, until you rescind it, until Congress rescinds it.

Mr. WATT. All right. That is all I want to be assured of.

Now there was some language, as I recall, in that bill about recapturing some prior money that was in HOPE VI. What is the status of that? How much money is still out there in HOPE VI that has not been committed?

Secretary JACKSON. All of the money has been committed——

Mr. WATT. Except the 2005 funds.

Secretary JACKSON. Right. But the other part—if I were to answer your question a different way, how much money is out there that is not obligated, it is about $3 billion, but all of it has been committed to different authorities.

Mr. WATT. Okay. Obligated and committed being—give me the distinction that you are drawing.

Secretary JACKSON. Committed is that—we have monies now that has gone to all those housing authorities—I can give you the best example, and I won't use a city. One authority has the money, but they have not drawn down on it for the last 4 years. So the commitment is there, but they have not obligated the funds, and, unless they obligate it, they are not in a spending mode.

Mr. WATT. What is going to happen with that? You take that money back at some point?

Secretary JACKSON. No. We send them a notice. We are working with a number of cities in that process, trying to get them to spend their money.

One of the things we have done is said, why don't you get a developer who can leverage the money and develop the project?

Mr. NEY. The time of the gentleman has expired.

Secretary JACKSON. In many cases, when the money has not been expended it is because they do not have a developer who can come in and leverage the money, so we are working with them.

Mr. WATT. Thank you, Mr. Secretary.

Mr. NEY. Thank you.

Mr. Pearce from New Mexico.

Mr. PEARCE. Thank you, Mr. Jackson. I appreciate your service, and I thank you for your willingness to come in today.

If I am understanding correctly, in the administration of your program you have decreased the fraudulent payments by $1.6 billion.

Secretary JACKSON. Yes, we have.

Mr. PEARCE. So we have got a certain number of people off the program that were there fraudulently.

Secretary JACKSON. That is correct.

Mr. PEARCE. Also, then you have increased home ownership by 2.2 million people, so you have got 2.2 million people less.

Secretary JACKSON. Right.

Mr. PEARCE. And you are not asking for less money in this budget, you are asking for more, which means that we have the capability to really expand services significantly.

Secretary JACKSON. Yes, we do.

Let me say this to you. We have a backlog now of less than $18 billion in public housing capital funds, but we have, to date, 80,000 fewer public housing units than we had just 10 years ago. We are working with a number of private developers and private investors with the vouchers to make accommodations for low- and moderate-income people. The best example I can give you is Chicago, where Mayor Daley, from my perspective, is doing an excellent job of leveraging private monies with our housing monies to create housing that is integrated both socially and economically, rather than the humongous high-rises that you saw going down the Dan Ryan Freeway. And that is what we are looking at. We don't have the same number of units when they say, well, the budget is cut; we have 80,000 fewer units in this country.

Mr. PEARCE. I appreciate that. I guess my point is that when you tell me that we are not serving more people, that the landlords are going up to above-market rates, that those landlords could be perceived as special interests. And much of the arguments here today could be special interests kicking back against a system that is trying to cut housing rental subsidies that are going up faster than the market rate, which will represent large blocks of landowners, rather than creating an ownership society.

Secretary JACKSON. I agree with that, but I won't say it is special interests. What I will say is this, is that what I found in running three housing authorities, unless you clearly state and make landlords compete, there is no need for them to compete, so they can raise the rates at their will. And that is what we are seeing in this country.

I can tell you firsthand. I made a sincere effort, the last housing authority that I ran in Dallas, that I had landlords competing to make sure that I got the best value for my dollar because I was allocated only so much money and I wanted to serve as many people as I could serve.

Today, based on the unit-base cost, there is really no incentives to do that. I think that if you give them budget base and flexibility, many of the housing authorities are capable and will do it, will make landlords compete, but until then there is no reason.

So that is why I said that the money is going up that we are allocating, but the number of people who we are serving has not increased any. And you will get debate and they will say that is not true. Well, you know, I ran three housing authorities, I think I am a pretty good expert, and all three of them were high performance, so I know exactly what I am talking about. When you are on budget base, you have to operate flexibly; unit base, it is not required.

Mr. PEARCE. Well, I read in here at one point that you serve 4.8 million households under one program. Do you have the total number of households that you are serving right now through all the programs, just approximately?

Secretary JACKSON. I know it is 2.2 in Section 8, and it is 4 point something in public housing—2 million in Section 8 and about 1.2 in public housing. I am sorry.

Mr. PEARCE. So about 4 million.

Secretary JACKSON. And then the other programs, right.

Mr. PEARCE. So when you set a goal of 5.5 million by 2006, is it 2006?

Secretary JACKSON. No. That was the home ownership goal set by the President.

Mr. PEARCE. I understand. But home ownership, you are supposedly taking people out of the program, the rental subsidies, and putting them over into a program where they never are going to have to have a subsidy again——

Secretary JACKSON. Not necessarily so. A lot of people are coming out of the program, but a lot of these are just first-time homeowners, period. They are middle-income people, fire people, police, nurses, teachers. They are not necessarily either on a voucher or in public housing.

Mr. PEARCE. All right. Well, I appreciate, Mr. Jackson, the efforts to change the whole culture, the culture of paying high rents with non-competitive leases, the culture of having subsidies rather than home ownership. I appreciate those attempts on the part of your Department to sort through a very difficult, difficult problem. I know it takes a lot of focus, and you are open to criticism from us, and we appreciate that.

Secretary JACKSON. Thank you.

Mr. NEY. The gentleman's time has expired.

The gentlelady from California.

Ms. LEE. Thank you very much. Thank you, Mr. Chairman.

First of all, Secretary Jackson, let me just say I believe that this proposed HUD budget really does reflect the values of an agency which has decided that it no longer takes on responsibility for caring for the least of these. It reflects priorities that you acknowledge rob Peter to pay Paul. Yet—we keep hearing about the religious values of the President and this administration. Yet this budget, if you ask me, does not reflect any sense of morality. It does just the opposite.

It is really, quite frankly, immoral to shatter the hope out of HOPE VI and accept housing that really is subhuman in our country. I can't figure out what is moral about cutting 15 percent from the housing account for Native Americans, allowing, also, families to live with lead paint or brown fields. It is my understanding there is about a 28 percent cut in lead paint grants. Of course, this will lead to sicker children.

I guess I have got to ask you, where is the morality in a budget that leaves those living with HIV and AIDS in a position where they have to choose between their healthcare and their housing? A 5 percent cut is unacceptable.

So, Mr. Secretary, I can't figure out how the administration can honestly cut these and other essential healthy community pro-

grams and really say that it cares about the poor and the elderly and the disabled. What you are doing is creating blighted neighborhoods which will wreak havoc on the most vulnerable people.

So I guess I have to ask you, given this—and I call it an unethical budget, what standards of morality did you use in putting it together, or was it strictly the accounting kinds of maneuvers that you had to do? Did you vigorously fight for additional funds so that the priorities wouldn't have to be what you are dealing with now or did you accept this as sort of a fait accompli?

Secretary JACKSON. I guess, Congresswoman, I am not going to debate you about ethics and morality. I think that——

Ms. LEE. Well, I think we should, because——

Secretary JACKSON. No, I don't think we should.

Ms. LEE.—your agency is the one that protects, hopefully, the most vulnerable of people in our country——

Secretary JACKSON. Well, you have your beliefs, and that is fine. I respect your——

Ms. LEE. You don't believe that?

Secretary JACKSON. I respect your belief.

Ms. LEE. You don't believe it.

Secretary JACKSON. I believe the budget does address the issue.

Ms. LEE. Well, how do you do that by cutting all the funds out of housing initiatives for, for instance, people living with HIV and AIDS? Five percent is terrible, 50 percent cut on the disabled. I mean, how do you justify? That is all I am asking.

Secretary JACKSON. Well, I will say this to you again. You have to make choices and priorities, and in this budget I made priorities. The priority was to make sure that we fund the Section 8 program fully and the public housing operating subsidy, and that meant that some areas would be cut. We looked at those areas that would be cut and looked around and realized that other people were serving many of those areas, too, and that our service would be augmented by other agencies. So I would——

Ms. LEE. Then can you tell me what agencies are going to augment, for instance, the cuts that address people living with HIV and AIDS and the disabled?

Secretary JACKSON. Health and Human Services addresses it every day.

Ms. LEE. So they are going to get an increase——

Secretary JACKSON. I can't speak for them, but——

Ms. LEE. But you chose to cut this because of the priorities and you didn't have enough money.

Secretary JACKSON. I didn't say we didn't have enough money. It was clear that we have programs that are eating into our budget, and until we address the issues of Section 8 we are going to continue to have to look very strongly at other programs.

I will say this to you in response. I have no great pleasure in cutting any program. It is a matter of looking at where we can best serve the people most in need, and clearly those people under the Section 8 program are in need, and that is a decision that had to be made.

Ms. LEE. But, Mr. Secretary, what I am saying to you is oftentimes secretaries make a fight within the administration for additional resources because they don't want to cut these programs. So

I am asking you—you say you didn't want to cut it. So if you did not want to cut it, did you go to the administration and say, look, we need not—we don't want to cut the disabled, we don't want to cut out Native American housing initiatives, we want to increase the efforts for cleaning up lead and lead-base grants? I mean, did you make that argument internally? And maybe perhaps you could have at least maintained some of these initiatives that the most vulnerable people need in our country.

Secretary JACKSON. Well, I think we have maintained those issues that the most vulnerable people need. And I am clearly——

Ms. LEE. But Native American housing has been cut by 15 percent. You are cutting the grants to the disabled by, what, about 50 percent. You are cutting housing for those living with HIV and AIDS by about 5 percent. So explain this. That is what I asked you earlier, the kind of standard that you used to do that.

Secretary JACKSON. I think I have said that you have your belief and I have my belief. My belief is that we have——

Mr. NEY. The gentlelady's time has expired.

Secretary JACKSON. The Section 8 program consistently eating into our budget, and I made some very hard and difficult decisions.

Ms. LEE. So you didn't fight to protect the others.

Mr. NEY. Time has expired.

Mr. Fitzpatrick of Pennsylvania.

Mr. FITZPATRICK. Thank you, Mr. Chairman.

Secretary Jackson, thanks for taking the time to come before the committee today. I know that I can say that, as a new member, your testimony has given me a greater appreciation and understanding for your budgetary issues at HUD.

I represent a district in southeastern Pennsylvania, Pennsylvania AID. It is some urban but mostly suburban, and we have had great experiences in working with your Department, especially in economic fields, economic development initiative. There is a lot of pressure for businesses to expand and develop in some of the open spaces in the county and in our communities, and the ability to take those BETI funds and redevelop older, abandoned industrial sites. That has been important to us, and I just want to sort of put in a plug for the BETI program.

Secretary JACKSON. Thank you.

Mr. FITZPATRICK. But I want to talk a little bit about the Community Development Block Grant.

As a local elected official, county official for 10 years, we really appreciate the Block Grant for a couple of reasons, not only for the cash assistance to the local community but, just as importantly, for the flexibility that it gives to a local governing official to be creative and to use those dollars in ways that local communities and local governments see them to be the most effective and the most efficient.

One of the things that we did in Bucks County, Pennsylvania, our little spot of the United States, was recognize that it is important for community development programs and economic development programs to work together to understand each other. We took our community development office that was in charge of implementing the CDBG program and we created a new department, essentially, a more efficient department called the Office of Commu-

nity and Business Development, because we wanted those two sides of the equation to be talking to each other.

So my question is, the CDBG program goes to the Department of Commerce, business side. Would you have any comments for Commerce on maintaining that level of flexibility for local governing officials? I know that you don't control the Department of Commerce, but what kind of message might you give the Department so they maintain that flexibility so local government can continue to do their job?

Secretary JACKSON. That the program works, and that if you look at the majority of the cities who receive the Community Development Block Grant Program, they are doing a very excellent job in being able to juxtapose both the community side and the economic development side, as you just said in Bucks County, and that we should look very seriously at maintaining a number of the ingredients within that program because they have been successful.

As I said to the Congresswoman from California, there are some issues, but, overall, the program, from my perspective, works very well. And I would hope that it would continue to work well because, clearly, it addresses the needs of many of the urban areas—well, not only the urban areas, many of the county areas, too.

Mr. FITZPATRICK. I think it goes without saying that, you know, when you send dollars to a local community there is always the capacity, always the ability to use those dollars more effectively and to get greater benefit by stretching the dollars. Doing more with less sometimes is possible. I know that working in the local government sector.

Secretary JACKSON. I think most of the cities have done a very excellent job of leveraging the block grant monies that have been sent to the cities. I have seen it.

One is—there is a commercial development within I think either yours or Congresswoman Waters' district where they built a Home Depot and a whole shopping center, and that was leveraged with Community Development Block Grant money. So I am a believer that it served a very, very excellent purpose.

Mr. FITZPATRICK. And you do you believe the Department of Commerce will maintain that level of flexibility for local governing officials?

Secretary JACKSON. I would hope so. As I said to Congressman Watts, they will have our input because we believe that they are valuable and good programs.

Mr. FITZPATRICK. Thank you, Mr. Secretary. I yield back.

Mr. NEY. The gentleman yields back the balance of his time.

Mr. Green of Texas.

Mr. GREEN. Thank you, Mr. Chairman. I want to thank the ranking member, Mr. Frank, and I would like to thank you, Mr. Secretary, for appearing today.

Mr. Secretary, when I ran for Congress I indicated that I would be a representative for the least, the last and the lost. Reverend Kirby John Caldwell referenced the least, the last and the lost when he gave the prayer at the State of the Union Address. The least, in my opinion, are those who have not. They cannot afford affordable housing. The last—many times those who are the last to be hired, first to be fired. The lost, those who are victims of AIDS,

the mentally ill. And, Mr. Secretary, it is my belief that this budget adversely impacts the least, the last, and the lost.

And, Mr. Secretary, my comments are not addressed to you, but rather they are addressed to us, because we live in a world where it is not enough for things to be right, they must also look right. And while it may be right to grant trillions in tax cuts to the wealthiest, depending on who is counting, about 3.4 trillion, while we are cutting AIDS housing 5 percent, $14 million, lead paint abatement 29 percent, $48 million, disabled 50 percent, fair housing 16 percent. Now, while that may be right to do that, it doesn't look right. And history is not going to be kind to us as it evaluates us. Not you, Mr. Secretary, but us. Because it is not enough for things to be right, they must also look right.

It may be right to cut community development block grants and yet spend enough in 1 month to cover those cuts; it may be right, but it doesn't look right. And history is not going to be kind when it evaluates us.

Mr. Chairman, Mr. Secretary, I am very concerned as a person who comes out of the human rights civil rights movement, about the cuts in fair housing, approximately $7.3 million, 20 percent in the fair housing initiatives program, 15 percent in the fair housing assistance program. And I am concerned because every time we have tested, we have found that discrimination still exists when persons are seeking housing opportunities.

And for us to have complaints that average more than 3 million annually in housing violations, and to cut these programs that can be so beneficial, I think it is going to hurt the least, the last, and the lost.

And I want to make one more comment. And I am really not begging for a response, Mr. Secretary. As I said, my comments are not directed to you, but rather to us, because we are all going to be judged. On the question of faith-based initiatives, HUD—this is a quote: "HUD has removed all discriminatory barriers to participation by such organizations."

Mr. Secretary, I went to the colored water fountains. I sat in the back of the bus. You may have as well. And I am not demeaning you. Let's say we did these things. And, Mr. Secretary, I think that what we are doing with this faith-based initiative is opening the door to discrimination. I think we are rolling back the clock to a time that I don't care to revisit. I find that right now, faith-based organizations have the same opportunities to government grants as any other organizations. What appears to be the desire of some is to discriminate in hiring practices, which is invidious to the Constitution of the United States.

Those of us who value the distance that we have traveled and the Constitution of the United States are shocked with the whole concept of allowing discrimination to sew its seeds in the church.

So, Mr. Secretary, I want to thank you for coming. And again, my comments are not directed toward you. We all are going to be judged in terms of how we allow this situation to continue, because it is not enough for things to be right; they must also look right. And this doesn't look right.

I thank you, Mr. Chairman.

Mr. NEY. [Presiding] Mr. Shays.

Mr. SHAYS. Thank you, Secretary Jackson. I believe that you do the very best you can with the resources you have. I also believe that you wouldn't be Secretary if you do not agree to the reductions that were asked of you, and then you try to make the reductions as acceptable as possible.

But still, now the bottom line is that we have a budget that I think is very harmful to our cities. I represent three urban areas, and I am going to be wrestling with whether I can even vote for the budget resolution if we aren't able to solve the problem. And the problem is that your budget needs to be larger.

I took tremendous pride in the community development block grant and the community services block grant in HHS, because I thought they allowed for flexibility. They allow for focusing where we need to. And you know, I fear that this Republican administration, of which I am proud to be a part of in terms of working with them, but I am concerned they are giving block grants a bad name; because really what we are doing, whether it is 5.6 billion down to 3.7 billion, or whether it is 5.3 billion down to 3.7 billion, the reduction is $1.6 to $1.9 billion.

And I guess what I am just saying to you is that what we do in block grants, instead of taking what makes sense about them, their flexibility, and expand them, we put a lot more into it and then we cut it, and then we say fight over what remains. And so I don't have a difficult time understanding why we give our Democratic colleagues a chance to rightfully criticize what we are doing.

So I guess my message is, because I have heard your comments, I do not need to ask more about what I have already heard. I wanted to wait, hear your testimony, and express to you publicly that I think of all of the things to cut, to cut community development block grants and community service block grants is just really a big mistake. And now it is on our shoulders to resolve it. But it is going to be difficult.

I yield back.

Mr. NEY. Mr. Scott from Georgia.

Mr. SCOTT. Thank you very much, Mr. Chairman.

Secretary Jackson, I really am so concerned about what is happening to your Department and the budget cuts that I am not sure where exactly to begin. But let me begin with HOPE VI. I am so continuously baffled with this administration.

HOPE VI is arguably the Republican's foremost program in housing. It was created by Republicans, supported by Democrats. It has gone down to the abject poverty level as far as housing is concerned in public housing.

It has reinvigorated the whole concept, brought in mixed income, and more than any other program has leveraged the money we have given to them for millions and millions of dollars' worth of economic development in surrounding communities.

In my hometown of Atlanta, Georgia especially, the impact has just been tremendous. And when you were here before the committee before, I asked you to go back and talk with President Bush and ask him not to cut HOPE VI. It is the paramount virtue of what he is all about in an ownership society, opportunity society, it is there. And yet with all of that success, the rewards that HOPE

VI seem to be getting can best be captured in the words "cruel and unusual punishment."

Let me just give you an example. Amazingly, the administration has proposed cutting the funding for HOPE VI in fiscal year 2006, which we have already appropriated for HUD to spend this year. Worse, the administration is proposing to cut that very same funding at the same time that it is supposed to be spending that funding.

It is such a schizophrenic situation here that it is just mind-boggling. And on top of that, HUD has a notorious history for spending HOPE VI money late. As a matter of fact, fiscal year 2004 HOPE VI funding still hasn't been spent. Now, I want to ask you a few questions about that, because I know you to be a very decent person, a very caring person about this.

But we need you to be a fighter for these programs, to fight for your Department. You should not take these cuts lying down. Your agency has the most significant cuts of all, and I encourage you to fight for this. This budget is here. We haven't voted on it. There is still opportunity.

But in HOPE VI, let me ask you about this schizophrenic funding here where we have proposed money. You are holding onto fiscal year 2004 money. Are you deliberately holding onto that money until the fiscal year 2006 congressional appropriations bill is passed? That is my first question.

Secretary JACKSON. No. We are not holding onto fiscal year 2004 moneys. We have fiscal year 2005 moneys. As I said to Congressman Watts that No File will be out in March.

Mr. SCOTT. What specific steps are you taking to ensure that the fiscal year 2005 HOPE VI money will be spent in a timely fashion?

Secretary JACKSON. Once we sent the No File, we expect to get it back within 60 days. And we expect to evaluate and allocate the moneys to those cities who rank the highest. We usually, I think, go to about 20 cities with the amount that we have. So clearly we will allocate the money once the proposals come back in.

Mr. SCOTT. What are you telling to folks like the Atlanta Housing Authority, the Fulton County Housing Authority, Clayton County Housing Authority in Georgia, where, as you know, we are the poster child for success with HOPE VI?

Secretary JACKSON. You are absolutely correct. There is no question that Atlanta is the poster child. And there are a couple of other cities, Dallas, Charlotte.

If, Congressman, if every city was like Atlanta, like Dallas or Charlotte, the HOPE VI program would be virtuous. Right now we are setting on about a little over $3 billion that has been unspent somewhere between 3 to 10 years. We have only completed a little over 30 of those projects that we have funded, almost 200 of them. The money is being unspent.

You have asked me to speak to the President. But as I told you when we discussed it last year, as I told you when we discussed it individually, I was part of the organization that created the HOPE VI, that wrote the legislation. I believe in HOPE VI, but I do not believe in funding a program that is not working. Right now we have over 150 cities who have not in any way started the process of their HOPE VI. And some of them go back to 8, 9, 10 years.

So my position is, we cannot keep funding something that is not working. As of today it is a little over 30 out of 200 projects.

Mr. SCOTT. But can't we find a way to work with those programs that have proven successful, rather than throw them out with everything else?

Secretary JACKSON. Well if we look at your city—I will close with this—you have done an excellent job. I was just in your city about 2 or 3 months ago. I think that all of your HOPE VIs have been done very well. You do not have the same problem that faces most cities.

Mr. NEY. Mr. Renzi of Arizona.

Mr. RENZI. Thank you, Mr. Chairman.

Mr. Secretary, thank you for coming over. I want to ask you to travel with me out west now to the Colorado plateau. Red dirt everywhere. When the wind blows, it makes a pink snowstorm up there, a pink sandstorm. They have got rattle snakes and scorpions, and we are too young Navajo brothers growing up in a hogan. A hogan is a mud hut with sticks. And we grow up in that hogan. And if we are lucky enough to go out and harvest wood, we have firewood that heats our home at night. And the elders who grew up out there, since they do not have the ability to walk half a day to get firewood, they bring the sheep in at night and they heat their homes with animal heat, like the cavemen used to.

And that sounds like a story that I made up. But Maxine Waters from California came out there in her high heels and she saw it was true. And so we grew up in that hogan together, you and me, Mr. Jackson. And we pull ourselves up by our boot straps and we get a job up in Window Rock, Arizona making $25,000 a year, just above the poverty line, which is about what 50 percent of the people up there make.

And we apply to get a loan. We are the first people in our family to ever apply for home ownership. And we apply to get a loan, on line maybe, because we have access to the local Internet and the computer. And when we do that, the Bureau of Indian Affairs decides whether or not the title and the search methods on the plot of land that you and I are buying together is a clear title, it doesn't have a cloud on it. It takes a year and a half for that title search to get done, because while we call them sovereign people, the Federal Government in trust decides whether or not they can have ownership of that land or not. A lot of talk about ownership society. So the Bureau of Indian Affairs hasn't been able to get it right.

So what we did a couple of years ago is we reached out to you folks over at HUD and said, do us a favor, hold these guys by their hand and shake up the Bureau of Indian Affairs because young men, young people, up-and-comers, should not have to wait a year and a half to have a title search. Right?

Secretary JACKSON. That is correct.

Mr. RENZI. So they went to this technology fix over at BIA, this STAR system they call it. And that is supposed to be the cure-all. But in essence, out there on the Native American computers, you have got a piece of paper that has to be stitched and has to be carried around.

So my first question, my friend, my Navajo brother, what is it that the HUD has been doing to help hold BIA's hand? Where are

we on making sure that this repressive nature of title searches is being broken so that we can bring some hope out there?

Secretary JACKSON. Congressman, I——

Mr. RENZI. You didn't like my story?

Secretary JACKSON. No, I thought your story was excellent. And I know it is true. We have signed a memorandum of agreement with the Bureau of Indian Affairs in September. And it is our effort to try to provide the title search for no more than 30 days, to have it done within 30 days, because I too agree with you that it is not right. It is not right for that to occur on a year, a year-and-a-half basis. We are trying to make sure that at this point it is always under 60 days. That was the memorandum of understanding.

Mr. RENZI. Do me a favor, because I know you are a good man of compassion. We have heard a lot of discussions here today. Take your leadership and your passion and your pointed spear and get after those guys over there at BIA, please, okay? Make them follow you, all right?

Let me talk to you about another issue. When we talk about Native American housing has the funds, this is the third year in a row we are looking at cuts. One of the reasons we are looking at it is because we gave $33 million back last year that we didn't access, because we are dealing with Native Americans who don't know the best way to navigate through the system, who aren't used to being able to get on line on the Internet, they are not used to breaking down the walls of application process as it relates to lenders.

You are talking about people who have never done this before, who do not have an uncle that is going to put a little money in the bank account so they can get the down payment like my kids will have. And a lot of these folks—we all know you borrow a little money here from the relatives. That is how you get the down payment. Well, they do not have that.

So when you look at the amount of money in particular that you are having to prioritize, and you look at last year, under section 184 that we gave back $33 million because we didn't use it. As a friend, I would say to you, that when you look at the HUD technical assistance and training area, and you look at the money that is going to be pulled out of there, that is where we best counsel and train and help people navigate through the system who have never been able to do it before. And of all of the areas that we do not want to cut, we do not want to cut the counseling that you guys provide that helps people navigate through the system.

Thank you for your leadership, especially as it relates to BIA.

Mr. NEY. Mr. Cleaver, the gentlemen from Missouri.

Mr. CLEAVER. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here. I will try to ask a number of questions quickly. The first of them is on page 7 of your statement, in the fourth paragraph, bottom line, you said: More importantly, there has been a 50 percent reduction in improper payments amounting to $1.6 billion.

If HUD is saving $1.6 billion dollars, congratulations. But, secondly, why cannot that $1.6 billion go to CDBGs?

Secretary JACKSON. Because all moneys basically that we save reverts back to the Government. I mean, we——

Mr. CLEAVER. CDBG is the government.

Secretary JACKSON. To the Treasury. We do not have control once the money is saved. It does not—we have a budget that is approved by you every year, so we do not have a carryover from savings. It goes directly back to the Treasury once we save the money.

Mr. CLEAVER. So no matter—but that money was allocated, though?

Secretary JACKSON. Well, you are absolutely correct. But I can tell you other moneys that we save in Ginnie Mae and FHA, Federal Housing Administration, that once we save it goes directly to the Treasury.

Mr. CLEAVER. But does it not give HUD a more powerful argument about funding CDBG when you can talk about the fact that you saved 1.6 billion? I mean, is that not a powerful argument?

Secretary JACKSON. I think clearly.

Mr. CLEAVER. You are not asking for new money.

Secretary JACKSON. It just does not work that way. I mean, we save money. And now, there is no question that I will always defend and make an argument for all of the programs that we fund because I think they are important, but at the same time, Congressman, I have to prioritize. And clearly that is what I have done in this budget.

Mr. CLEAVER. Okay. I disagree with all of that. But I served as mayor of Kansas City all through the 1990s. And we have an annual housing survey. We did 240—we identified 240,000 homes in Kansas City, 55,000 of which were in serious need of serious rehabilitation, 5,000 of which we needed to demolish. And we used the lots on which we tore down the houses to build affordable homes. And we did that using one-third CDBG, two-thirds private sector participation. And as a result, we were able to make some significant progress; 12,000 properties were rehabilitated in our community.

I am going to have a 10 o'clock town hall meeting on Friday with a number of poor individuals in Kansas City at the Bruce R. Watkins Center. One of the questions that may come up, and certainly one of the things that I would like to deal with, is the fact that 48,000 families are in homes with rehabilitation needs. Is there something I can communicate to them from the HUD Secretary with regard to the fact that those dollars are no longer going to be available? What can I tell them to make them feel better?

Secretary JACKSON. Well, the dollars are still available now at HUD. Those dollars are allocated to the respective areas. Kansas City is one. I am very familiar with the work that you did as mayor and what the present mayor is doing. I think it is absolutely laudable.

The key to it is the funds are still available, the CDBG funds, the home funds, all of the funds are available. And as the Congresswoman asked, again, from California, I would hope that once we have the legislation written, and with my input, that many of the programs that exist now still exist.

Mr. RENZI. [Presiding] The gentleman from Kentucky, Mr. Davis.

Mr. DAVIS OF KENTUCKY. Thank you, Mr. Chairman.

Mr. Secretary, I think the diverse lines of questions that you have received here today really reflect assumption on many of our parts about what the role of government ought to be. And I want

to applaud the Department for finding $1.6 billion in waste. I think if we viewed this as our money that we were spending, we would not pour good money into ineffective processes that do not meet standards.

Housing is a big issue with me personally, and in my own experience our Congressman cut through government bureaucratic red tape 35 years ago to help my mom get into a little two-bedroom starter house that literally changed our lives. So home ownership, especially at the entry level with poor families, is a big priority to me.

I think that we have millions and millions of dollars in lost opportunity. My question is not about spending—or asking for more money, but is more from a perspective of leverage that you have as the Secretary, the Department has with dollars that are coming into our local communities.

In Covington, Kentucky, for example, in the heart of our district, we have many hundreds and hundreds of small two-bedroom starter homes, some that are nearly 100 years old. Those could not be built today according to local regulation and State regulation for code and regulatory compliance, much of which has absolutely nothing to do with sound engineering, with safety, and environmental adherence. And frankly, it becomes a barrier to those most in need of housing. I have seen this over and over again, even to a degree in our rural areas, but especially in the urban areas.

I was wondering if perhaps you could consider looking at a different rule set in application, not only on compliance with your stated standards. I think you are well put and correct to not give money to regions that are not in compliance because of their internal difficulties. Yet at the same time, I am wondering if you might beable to use that leverage on local government that does have need for that, to perhaps relax or simplify these regulations that don't add value to the citizens.

I think in the end, not only would it increase opportunities for ownership, it would dramatically reduce the cost of housing in urban areas. We are finding entry-level folks have to move out of their neighborhoods or out of the community to buy a house if they get to that point. And it would keep neighborhoods together. In the long run it might even increase the ability of HUD to service our citizens with a higher level of service at a lower cost.

Secretary JACKSON. I agree with you, Congressman. And let me say this, Congressman Davis. I think it is imperative that we remove the regulatory barriers. And as I said a few minutes ago, that is why we started with HUD, because when I walked in, there were probably more regulatory impediments that we insisted that cities and counties follow than necessary. We are about 60 percent, or a little over, through with that. Then I think I have the authority to say to people, us mayors, county administrator in Covington, Kentucky, you need to remove these barriers because they are an inhibition to people owing homes.

And many of these barriers are put up because people think that their community has been developed enough and they make a decision: not in my back yard. Well, you know, my position is the people we are talking about building the homes for, people we are talking about getting into homes are teachers or fire people, police

people. These are people who serve us, who teach our children. Yet we are keeping them out with these regulatory barriers.

As I said just a few minutes ago, just using California as an example, Los Angeles, before a home ever comes out of the ground you spend somewhere between 100,000 and $109,000 on permits. That to me is just unacceptable, because that effectively removes a person—a family of four, both teachers, from being able to afford a home within the boundaries of the city of Los Angeles.

So I think if we can get past these regulatory barriers and give incentives to developers, you will begin to see that. That is why I asked you all to pass the Affordable Housing Tax Credit Act which will give $2.5 billion to developers to come back into the urban area. I am a firm believer that counties can thrive, but they cannot thrive as well as they can if they have a viable urban area. I think the urban area is extremely important.

Mr. DAVIS OF KENTUCKY. In closing, there has been a lot of talk about compassion. And having spent the last 25 years of my life working in the inner city, giving back to, in a sense returning to the next generation, folks who had a big impact on my life, there is a great deal of compassion in the building community and the entrepreneurial community, folks who have come from these neighborhoods who want to come back and make a tremendous difference in the long term.

I have heard it over and over again from folks that if some leverage can be put on the local government in a positive sense, a proactive sense, where there was incentive to bring some common sense to regulations, they would make the investments right now in the home building and real estate development area. They want to keep our communities together. I think this will be laudable.

If you would share with us or with my office, we can work with you, we would be glad to do that. Thank you.

Secretary JACKSON. I will be happy to work with you because, you know, I too believe that my effort to work at HUD is extremely compassionate. And I—as the Congressman said a few minutes ago, Congressman Jefferson, it is very important to me. Like him, I was brought up in a very segregated environment in Dallas, Texas so I know about noncompassion.

Mr. RENZI. Thank you. The gentleman from the show-me State of Missouri, Mr. Clay.

Mr. CLAY. Thank you. And welcome back to the committee, Mr. Secretary. It is always a pleasure to see you.

Like most Members of Congress, I am deeply concerned by the drastic budget cuts of the CDBG and the proposed shift of this jurisdiction from HUD to the Commerce Department. I additionally have questions about whether the efficiency of targeting revenue from CDBG grants will be enhanced or diminished if such a transfer does take place.

Now, we have heard mention of St. Louis, the area that I represent. And in St. Louis, the stack of poverty and lack of housing in north St. Louis qualifies the city for quite a large amount of money from HUD through the CDBG program. Yet much of this money is never seen in north St. Louis, and is sent downtown and to other parts of the city for other projects. We bring money into the city, yet the problems still exist. How do we better effect meth-

ods to get the money to the areas that produce the justification for the CDBG grants?

Although I do not favor sending the program over to Commerce, would this result in much more efficient targeting of the moneys than is presently practiced? What suggestions do you have? What are in your plans to make this process more efficient so that it actually targets those populations that the money is intended for?

Secretary JACKSON. I think that is a fair question, Congressman Clay. We have sent to the Congress four new proposals of how we will address the CDBG allocations. We think it is more equitable. We will let the Congress look at those four proposals.

Secondly, I think it is important what you said. I have heard this on a number of occasions. If moneys are not being allocated to where they are—where they should be, we need to know that, and then we can address that with the mayor of your respective city and the city council who we allocate moneys to, because it is clear in the community development block grant proposal and legislation what the money is to be used for.

If it is not being used for that—and I have had a number of occasions since I have been here to address cities on that issue—we will be happy to address that to make sure the money is allocated and spent where it should be.

Mr. CLAY. Let me just have a restatement of that so that everyone is clear about the fact that you have gotten complaints in the past from other jurisdictions; that the money that comes in directed towards poor communities somehow doesn't get there. And so I just wanted to——

Secretary JACKSON. And we have corrected that. It has not been a lot, but we have had cities where that occurs.

Mr. CLAY. Okay. On another issue—thank you for that response.

Many public housing authorities in Missouri still have not received their year-end settlement reports from HUD for the fiscal year ending June 30 of 2004. They have no way of knowing their financial position until they can reconcile their finances. This sometimes results in recapturing of reserves and sometimes charges of administrative fees. Why is the process taking so long? Can it be speeded up?

Secretary JACKSON. We will make every effort to speed it up. But the reason that the delay is there, because you know that they sued us based on administrative fees, and we were in the process of trying to resolve the lawsuit.

Mr. CLAY. So there is pending litigation on that matter?

Secretary JACKSON. Yes.

Mr. CLAY. One other issue. An overlooked problem within housing agencies, which you are very familiar with from your background, is the high rate of personnel turnover. The loss of experienced staff results in efficiencies and costly training for replacements. The turnovers occur due to a lack of proper raises. And how do we maintain personnel who have the required knowledge regarding the details of HUD's complicated procedures?

Secretary JACKSON. I really do not know, and I can't answer that, because each individual housing authority—that is, the CEO of that housing authority—is responsible for the running of the housing authority. So some housing authorities work extremely well,

others do not. I just do not know. That is left up to the management of the housing authority.

Mr. CLAY. Well, could it be an issue of a proper operating subsidy that these housing authorities receive?

Secretary JACKSON. No. I think housing authorities have to make difficult decisions. But each housing authority that I ran had to make difficult decisions. I can remember of the three I ran, the subsidy was never over, I think, 94 percent. So I think you have to operate within a budget. At least that is what I always did.

Mr. CLAY. Thank you for your response.

Mr. RENZI. Thank you, sir. The gentleman from Texas, Mr. Hinojosa.

Mr. HINOJOSA. Thank you, Mr. Chairman. I would like to submit for the record a copy of a letter I sent to President Bush dated February the 14th, 2005, expressing my extreme concerns about his proposed housing budget cuts, especially the 35 percent reduction in the CDBG funds and the elimination of the RHED Program.

Mr. RENZI. Without objection.

[The following information can be found on page 80 in the appendix.]

Mr. HINOJOSA. Thank you.

Mr. Secretary, thank you for meeting with us today. The President's proposed housing program budget cuts and other changes could cost my congressional district $15 million in community block grants, community development block grant program funding alone, in the proposed 2006 budget.

Overall, my district could lose another 19 million in Federal funding for the important housing and community development programs at a time when Texas, its cities, and localities are strapped for cash and in need of Federal funds.

Your proposal to eliminate the 24 million HUD rural housing and economic development program funding would devastate the poorest of the poor, such as those living in colonias in my district, who rely on the program for affordable housing.

Secretary Jackson, you issued a press release dated Monday, September 13th, 2004, announcing that 14 communities were receiving HUD's Community Development Excellence Award for their outstanding work in using CDBG funding to create better communities and to improve the lives of their lower-income residents.

One of the recipients of the award was Pharr, Texas, located in my congressional district. You recognized Pharr for its outstanding work in using this funding to change Las Milpas, which is a colonias south of Pharr, changing it from a colonias into—and I quote from your own press release—"a growing community with pride."

In that same release you state that "these communities are outstanding examples of how CDBG works." You further note that "in a climate where results and performance count, these communities, including Pharr and many others like them, are doing wonderful work and building better neighborhoods and creating greater opportunities for their lower-income residents." Those were the words of praise that you expressed.

I find it odd, to say the least, that President Bush would propose and that you would defend such cuts to the CDBG fund less than

5 months after issuing such a strong press release praising the CDBG program.

I endorse the comments made by Mr. Scott, that you need to fight for areas like ours. You need to make a better case to not allow these things to happen. What could possibly have happened over these last 5 months to change your mind? I would like for you to answer that.

Secretary JACKSON. Thank you very much, Congressman Hinojosa. Nothing has changed my mind. I still believe that the CDBG program is an excellent program. And what I said in that letter still stands today. I have had a chance to be in Pharr and saw the colonias areas myself. I saw them before and afterwards. And so I am in agreement with you.

What I said is that a decision was made to consolidate. And as I said to Congresswoman Waters, I made our case. And I will still say, I think I made a very excellent case. But the decision was made to consolidate. I do believe that the programs, as fragmented as they are, should be consolidated. I still believe that today.

But my personal opinion has not changed. I think that when I sent that letter to the mayor of that city, I meant that. I think that area is absolutely wonderful. I have seen the transformation.

Mr. HINOJOSA. Let me interpret you. Time is running out.

Secretary Jackson, why is this administration proposing housing and community development program funding cuts and jurisdictional changes that could cost my district the 15 million in CDBG funds?

Secretary JACKSON. I can tell you about the consolidations, because we have fragmented programs. What I can say to the first part is that we sent—we zeroed out of our budget $4.2 billion. I am just not apprised of how the 4.2 billion will be spent at Commerce. We will get back to you, because we are in the process of developing legislation.

And as I have said to a number of Congress people, I will specifically keep talking about how well the program has worked, and hopefully they will hear my position on this matter.

Mr. RENZI. Mr. Miller of North Carolina.

Mr. MILLER OF NORTH CAROLINA. Good morning, Mr. Secretary. Your predecessor, Secretary Martinez, now Senator Martinez, testified on April 8th of 2003 before the Subcommittee on Housing and Community Opportunity on the down payment grants program, the American Home—American Dream Down Payment Act. Have you seen his testimony or reviewed it at all?

Secretary JACKSON. I was there when he testified.

Mr. MILLER OF NORTH CAROLINA. You were there. Even better. I am sure that you recall the administration first said that that program—the funding for that would come out of the home block grants, and then said no, that that was not the case. And by the time of our hearing 2 years ago, that was still very fresh on the minds of the members of this committee.

So when Secretary Martinez testified, Ms. Waters began by saying, I am worried about this idea before us today because there is no new money. We already have the home program, I believe it is, where the cities are using some of their dollars to reduce the cost of down payment, but they have flexibility in the use of those dol-

lars so they can use it in any number of ways. If you want a program that is basically going to be a duplication of something that is already going on, you have to get more money and not rob from Peter to pay Paul.

Secretary Martinez, just a few moments later in response to questions from Mr. Renzi, said, "So it would not be instead of, it would be in addition to all other available programs."

Mr. Renzi said, "So we here have a means to provide over 200 million?"

And Secretary Martinez interrupted him and said, "Of new money, by the way."

Mr. Renzi said, "New money?"

Secretary Martinez said, "It is totally new money."

Mr. Renzi: "In addition, $200 million of new money?"

Secretary Martinez: "Absolutely. Totally."

Ms. Waters interrupted. "Will the gentleman yield?"

Mr. Renzi: "I will be happy to yield."

Ms. Waters: "We need to straighten this point out. Wait just a minute. We did not see this new money in the budget."

Secretary Martinez: "It is absolutely in the budget. It is 200 million of new money."

And on and on. I made the same point in my opening statement.

The subject of CDBG comes up. And Mr.—Secretary Martinez: "this is not a set-aside within the HOME program, it is going to be an opportunity for this program to run alone, it does not interfere or conflict with the current things that HOME does, or with CDBG dollars, and the continued flexibility of the HOME program."

Mr. Ney, sensing that Secretary Martinez wanted to make a point, asked him the same question again. He emphasized new money. New money. New money.

Ms. Lee then raised the point, after Secretary Martinez again said, "It would work with the existing home program and the CDBG program," said, "Is that in the bill, because—and the same thing with the CDBGs. That is not on the chopping block this year at all? You are fully funding that?"

Secretary Martinez says, "Yes. CDBG and HOME is full funding."

Ms. Lee: "Is it authorized?"

Secretary Martinez: "Of course."

Ms. Lee: "Have you reauthorized it or sent it up as a proposal?"

Secretary Martinez: "CDGB, of course. Of course it is. Yes."

Ms. Lee: "And is it reauthorized?"

Secretary Martinez: "Reauthorized and fully funded."

Secretary Jackson, several members of this committee have asked you today for assurances about what this administration is going to do in the future about programs that affect low-income folks. I am not sure I would place any value on assurances from this administration, unless you could square for me what Secretary Martinez said 2 years ago and what this year's budget does to the very programs that Secretary Martinez assured us about.

We have heard a great deal about the CDBGs, the HOME programs would be cut by 66 million, which when adjusted for inflation is a 12 percent cut over the lifetime of this administration.

Can you square what Secretary Martinez said 2 years ago, the assurances he gave us about the HOME block grants and the CDBG block grants and this year's budget?

Secretary JACKSON. I can't attest to what Secretary Martinez said. I was there. But, again, I had to look at the budget and make priorities. One of the priorities is clearly home ownership. Another was to make sure that we fully fund the section 8 program and that we fully fund the operating subsidies for PHAs. In that process, it was clear some things had to be cut. And I looked at it as candidly as I could and made those cuts based upon that.

As I said before, my concern is the tremendous growth of the section 8 voucher program that keeps eating at our budget, Congressman. And I think as long as that is the case, if we do not pass the flexible voucher program bill, we will be back next year and I will still have to make some very, very difficult and hard decisions.

Mr. RENZI. The gentlelady from Wisconsin, Ms. Moore.

Ms. MOORE. Well, thank you, Secretary Jackson. It certainly is really a privilege to be here. I am a new member from Milwaukee, Wisconsin. And certainly, just to share with you, we have a district where we have 59 percent unemployment among African Americans. We are in the middle of the Rust Belt and so we depend tremendously on CDBG funds.

Many members on both sides of the aisle have peppered you with questions all morning about the loss of housing funds. I do not envy the hard decisions that you have had to make about where to cut; you know, 50 percent cut in disabled housing. I am sure that that was not an easy decision to make. And I do believe you when you say that you have made a yeoman's effort to articulate your concerns and your competency to run the housing programs.

But it was decided, perhaps by your boss—we all have bosses—that we would indeed consolidate these programs and they would go to Commerce.

My question is not a money question. It is something that many, members have raised, but they just really haven't asked the question. It is about jurisdiction. What happens—we have all of these cuts in housing. And then when these programs are transferred to Commerce, the authority to use them for housing programs will also be lost.

And so I am curious about whether or not you are willing to transfer authority. I will give you an example. For example, brownfields. You know, in order for a housing project to be developed on land—low-income housing, you might have to have a cleanup. But if there is no authority to use it for housing programs, then that is a loss of money.

The CDBG section 108 loans, very critical in housing development.

So are you willing to transfer authority? Now that you have lost the fight on the money, are you willing to transfer the authority? Or is the authority just going to be lost? Because what our Democratic leadership is concerned about is that there is a present value of $1.6 billion that is going to be lost because there won't be the authority. And, of course, that will grow exponentially.

Thank you.

Secretary JACKSON. Thank you very much, Congresswoman Moore. I will surely have my input as it relates to transferring the authority on all of the programs. Again, my answer is—it is very simple. We have all of the programs. They came to the tune of about—I have been saying 4.2, but I mean $4.5 billion. We transferred all of the programs or zeroed all of the programs out of our budget with the intent to go to Commerce. That is what we did.

Now—and we would transfer in the new legislation the authority to go along with that. But——

Ms. MOORE. I guess that is what I question. Just to expedite this discussion, that is my question. My question is, because Commerce right now does not—if it works any way like the State of Wisconsin State legislature from where my roots are, that there is lots of friction and conflict between Commerce and housing agencies, because the mission of the Commerce Department is not to do housing.

And so that is what I am saying. Is this is not just a loss of money. What will you be able to say when you are at the table about the Commerce Department now taking on a new role in housing development? You say that you agreed with the consolidation, but I do believe that you were saying the programs need to be consolidated in HUD, because you would still have the authority, and local communities, as many people have mentioned, would have the flexibility to use them for economic development or housing, sort of joint projects.

And my fear is that once it gets over to Commerce that that flexibility will be lost and gone. So that is why I am not comprehending why you agreed with the consolidation, given the fact that the authority will be lost.

Secretary JACKSON. Hopefully the authority, once the program is shifted, will not be lost. As I said before, I will be involved in the new legislation. So I expect I will give the input. I cannot, as the previous Congress person asked me, I cannot guarantee or assure you. I will put my input in. And secondly——

Ms. MOORE. That is your argument for getting the programs to stay at HUD.

Mr. FRANK. Mr. Chairman, before you get on to Mr. Davis, who has very patiently waited, I wanted to extend my thanks to the Secretary. He has sat here now for 3 hours. None of us asked for the committee to be as large as it is, but I really do appreciate your accommodating all of the members and staying to the end for the questioning.

I would also comment on the tranquility that you have maintained during this. I know that this is not necessarily your natural reaction. So I admire that.

I do want to thank you for accommodating this large committee. I do appreciate it.

Mr. RENZI. The gentleman from Alabama.

Mr. DAVIS OF ALABAMA. Thank you, Mr. Chairman. I would echo the comments about your patience.

Rather than spending the last block of questions wading back into the details of these programs with you, let me ask you a fairly broad set of questions. You didn't recommend to the President the changes in CDBG or the new funding levels. Do you know of any

single mayor in the United States who called the White House and recommended the CDBG changes that are happening?

Secretary JACKSON. No.

Mr. DAVIS OF ALABAMA. Do you know of any county commissioner or any county commission chief executive or county chief executive who called the White House and requested the changes that are happening?

Secretary JACKSON. No.

Mr. DAVIS OF ALABAMA. Do you know of any Governor who called the White House and requested the changes that are happening?

Secretary JACKSON. No.

Mr. DAVIS OF ALABAMA. Okay. So if the President doesn't listen to his HUD Secretary, doesn't listen to any mayors administering the programs, doesn't listen to any county commissioners administering the programs, doesn't listen to any Governors, who the heck is he listening to on housing policy?

Secretary JACKSON. I would disagree with you. I think he does listen to me.

Mr. DAVIS OF ALABAMA. No. On that specific issue, on CDBG, if he doesn't listen to you, mayors, Governors, county officials, who in the world is he listening to on CDBG?

Secretary JACKSON. I think the President does listen to me.

Mr. DAVIS OF ALABAMA. On CDBGs? If you didn't recommend the changes and you didn't recommend the cuts, and you cannot identify anybody else who did, who in the world is he listening to?

Secretary JACKSON. No. What I said to you is this: I agree with the administration and the President that the program should be consolidated. I made——

Mr. DAVIS OF ALABAMA. But you also say they are excellent programs. You agree that they are working. And if they are excellent and they are working, most things in my office that are excellent and working I do not change.

Secretary JACKSON. I can't disagree with you.

Mr. DAVIS OF ALABAMA. So if that is the case, I am trying to ask you a fairly simple question——

Secretary JACKSON. And I am trying to answer it for you.

Mr. DAVIS OF ALABAMA. I am looking for an answer. If you didn't recommend the changes and nobody else did, who is the administration listening to on CDBGs?

Secretary JACKSON. I think the administration listened to me. Again, I will go back to my original proposal that I do believe the program should be consolidated, and I made the logical argument where it should be consolidated. The argument was heard and the decision was made that Commerce would be the better agency.

Mr. DAVIS OF ALABAMA. Let me ask you another question. You do not dispute that HUD is getting the greatest percentage cut of any of the Cabinet departments?

Secretary JACKSON. No question.

Mr. DAVIS OF ALABAMA. No question about that. Now, normally when—and I recognize that budgets are about priorities, and the President and people around him, and Carl Rove and company, have to make decisions about what programs get what.

But normally if a program or an agency receives the greatest cut, it means one of two things. It means it is the least effective performer, or that it reflects the least priority.

Now, I assume because you haven't resigned and you are still in your position that you do not buy the first explanation. So what about the second one?

Secretary JACKSON. I do not buy that either. I think the program was consolidated——

Mr. DAVIS OF ALABAMA. No. No. I am talk being about HUD. We are not talking about CDBG. We are talking about HUD right now. HUD receives the single greatest cut of any Cabinet department. Usually that means one of two things: It is the least effective performer or it is the smallest priority. Which one is it?

Secretary JACKSON. I don't think it is either one. You look at it from our perspective, that you are talking about efficiency. I don't think there is any diminishing in the role of HUD.

Mr. DAVIS OF ALABAMA. Let me ask you this. Are you saying that no other Cabinet department has the efficiency issues that HUD has?

Secretary JACKSON. We do not have—I don't think that this consolidation is about efficiency. I have not said that.

Mr. DAVIS OF ALABAMA. We are not just talking about CDBGs. We are talking about the fact that HUD is getting the greatest cut, and you have bemoaned that all morning.

Secretary JACKSON. Congressman, I do not see it as a cut. I see it as a shifting of funds. It is not a cut.

Mr. DAVIS OF ALABAMA. Didn't you just agree with me that HUD was getting the biggest cut of any department?

Secretary JACKSON. If you are talking about cuts, yes. But I don't see cuts as a priority when you are talking about removing a program. The program is going over to Commerce.

Mr. DAVIS OF ALABAMA. But we are not talking about CDBGs, we are talking about HUD. You agree with me that HUD is getting the biggest cut.

Secretary JACKSON. That is the cut. There is no question. I am not disagreeing with you.

Mr. DAVIS OF ALABAMA. Let me ask you this question. Since you are not going to answer that one, let me try this one. I am a little bit curious about how you grade your own effectiveness, Mr. Jackson. I will kind of wrap up with this point. If you argued—and you believe CDBGs are a good program—and you argued for their current preservation but you lost out, presumably you asked for more money for HUD—you haven't conclusively said that, but I am going to assume that you did—you lost out. Presumably you asked for greater spending levels for all of these things and you lost out.

How do you measure your own effectiveness if you cannot get the President who appointed you to follow your suggestions about the funding levels for your own department and the priority level to keep it from getting the biggest cut of any other department?

Secretary JACKSON. First of all, that is a presumption on your part that I don't think that we are funded at the level that we should be. I do believe that we are funded in the programs.

Mr. DAVIS OF ALABAMA. So you think that these cuts are good cuts?

Secretary JACKSON. I think these cuts have to be made, because I think clearly all budgets are restrained. As my father used to say, that everyone operates with a budget.

Mr. DAVIS OF ALABAMA. Let me close on this. This will be my last point, Mr. Renzi.

Mr. Secretary, what I would submit to you—and I absolutely think you are a good person, I do not doubt your commitment to housing or to poor people or any of that. But if you sincerely think that these cuts are appropriate, then it raises the question to me of whether HUD would be better off with someone who is an advocate for a higher funding level as opposed to someone who is acquiescent in the cuts.

I will yield on that note, Mr. Renzi.

Secretary JACKSON. I think you have a right to your opinion. I won't disagree with you. I think that I am an advocate, but I also know that within budget constraints I have to operate. And clearly, as I have stated earlier, we cannot have the exponential growth of the section 8 program that we have had the last 5 years, otherwise it will eat up our budget. It started out 4 years ago at about 43 percent. It is 56 percent.

Mr. RENZI. The gentleman's time has expired.

The gentleman from Massachusetts.

Mr. FRANK. Just ask unanimous consent to submit—to have a couple of members submit some further questions to the Secretary for him to answer in writing and to submit an explanation of the point that some of us were making about our interpretation of the operating budget.

Mr. RENZI. Thank the gentleman.

Mr. RENZI. Mr. Secretary, thank you. This hearing was one of those iron-pants hearings that you go to sit through. I thank you for your leadership, sir, your resolve. We need you over there.

The Chair notes that some members may have additional questions for this panel which may be submitted in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

[The prepared statement of Hon. David Scott can be found on page 68 in the appendix.]

Mr. RENZI. The hearing is closed.

[Whereupon, at 1:05 p.m., the committee was adjourned.]

A P P E N D I X

March 2, 2005

Opening Statement

Chairman Michael G. Oxley
Committee on Financial Services

Oversight hearing on the Department of Housing and Urban Development

Wednesday, March 2, 2005

Today, the Financial Services Committee welcomes Secretary of the Housing and Urban Development, Alphonso Jackson, and we offer our congratulations on your successful first year as Secretary.

Over the past few years, this Committee and the Administration have continued to seek bipartisan ways to extend homeownership and to make existing housing programs work better.

For example, the Committee passed the American Dream Downpayment Act that benefits 45,000 new homeowners annually. The committee passed the Hospital Mortgage Insurance Act of 2003, which streamlined the process for local community hospitals to insure mortgages thereby enhancing the quality of life and health care, particularly in rural communities. The Committee enacted legislation to increase FHA multifamily loan limits, which addresses the acute issue of affordable rental housing in high-cost areas. In rural areas, the Committee passed legislation that would allow the Government National Mortgage Association (GNMA) to securitize Rural Housing Service multifamily loans as well as providing new homeownership opportunities for Native Americans.

This year, the President's Fiscal Year 2006 budget proposal would strengthen the core of certain housing initiatives, including rental housing assistance and public housing. The proposal advocates homeownership, which endures as an important goal for most Americans.

The Administration has also proposed an overhaul of the way the Federal government funds and administers community and economic development.

The Administration has not yet offered legislation describing how these thirty-five programs will collapse into grant programs. Mr. Secretary, I am looking forward to the opportunity to have you and Secretary of Commerce Gutierrez address this Committee on the details of this proposal

and how we can reach common ground to promote homeownership, community development, and economic opportunity.

President Bush has inspired us to make homeownership happen for even more Americans, even at a time when our homeownership rate is the highest ever at 68 percent. Since last year, homeownership for African Americans and Hispanic homeowners has exceeded fifty percent.

Mr. Secretary, I also want to congratulate you on your leadership in creating and sustaining rental housing opportunities for families not yet ready to pursue homeownership. This year's budget provides an increase in funding for rental housing through Housing Choice Vouchers.

To address another aspect of HUD's oversight responsibility, over the past two years, we have learned of accounting errors at Fannie Mae and Freddie Mac and also discovered that Fannie Mae sold fraudulent loans to Ginnie Mae. Chairman Baker has been diligent in his goal of reforming the GSEs, and many of the issues that have come to light can be directly attributed to his efforts. As we consider proposals for the reform of the GSEs, it is my hope that this Committee can work with the Administration to craft a regulatory structure that protects the taxpayers, ensures their safe and sound operation, and maintains their housing mission.

Last year, your Department determined that the enterprises were not meeting underserved markets. As mission regulator, HUD raised the affordable housing goals that the GSEs must meet. This committee is interested in any update you can provide related to the progress the GSEs have made in meeting these new goals.

I would also like to mention reform of the Real Estate Settlement Procedures Act. We all support the goal of simplifying the home-buying process and making it less expensive for consumers. I am hopeful that you will address the Department's future intent regarding the development of a new proposed rule.

Let me also take this opportunity to thank Housing Subcommittee Chairman Ney for his work on housing issues and recognize the gentleman from Massachusetts.

Mr. Secretary, thank you for being here today.

HEARING DATE: 3-2-05

THE HONORABLE JOE BACA – STATEMENT.

CHAIRMAN OXLEY AND RANKING MEMBER FRANK:

I AM PLEASED TO BE HERE TODAY AND TO HAVE THE OPPORTUNITY TO ASK QUESTIONS OF SECRETARY JACKSON. I ASK UNANIMOUS CONSENT THAT MY STATEMENT BE ENTERED INTO THE RECORD.

THIS HEARING FOCUSES ON THE HUD BUDGET. I AM AMONG THE MEMBERS OF THIS COMMITTEE WHO ARE VERY CONCERNED AT THE DEEP HOUSING CUTS THAT THE PRESIDENT IS PROPOSING.

I AM ALSO CONCERNED THAT THE TRANSFER OF KEY PROGRAMS FROM HUD TO THE DEPARTMENT OF COMMERCE WILL RESULT IN THE LOSS OF INSTITUTIONAL MEMORY AND EXPERIENCE. IT SIMPLY IS NOT CONCEIVABLE THAT ONE CAN TRANSFER HOUSING PROGRAMS – AND CUT THEM, AND NOT HURT THE PROGRAMS IN THE PROCESS. WE HAVE SEASONED, EXPERIENCED STAFF, AND WE ARE GOING TO LOSE THEM.

IT IS VERY IMPORTANT THAT WE CONTINUE TO SERVE THE UNDERSERVED, AND THAT WE CONTINUE TO PROVIDE INDIVIDUALS WITH AFFORDABLE HOUSING. THIS IS VERY IMPORTANT FOR MY COMMUNITY AND THE AREAS SERVED BY ALL OF OUR MEMBERS OF CONGRESS.

I HOPE THAT WE CAN HAVE AN HONEST DIALOG AND CONVERSATION ABOUT THIS, TO ENSURE THAT WE CONTINUE TO BE ABLE TO SERVE THE UNDERSERVED.

THANK YOU.

Additional Statement for the Record by Rep. Frank
Financial Services Committee Hearing – March 2

"During today's hearing, there was some discussion about the impact of the FY 2006 budget proposal on public housing funding. It is important to clarify that the Bush Administration's FY 2006 budget cuts $563 million (9%) from the overall public housing budget.

Specifically, the budget cuts $25 million from the Operating Fund; cuts $252 million from the Capital Fund; cuts $143 million cut from HOPE VI (by zeroing out funding); and rescinds $143 million of FY 2005 HOPE VI funds appropriated just a few months ago.

Secretary Jackson's claim during today's hearing that the budget for the public housing operating subsidy is up by $1 billion is inaccurate. The increase he claims results entirely from an accounting change that produced a one-time savings of $994 million in FY 2005; it does not result in more operating funds being made available to housing authorities in 2006.

Prior to FY 2005, Operating Fund appropriations included funds that were not made available to housing agencies for operating expenses in that same fiscal year. This was because many housing authorities have a different fiscal year than the federal fiscal year. In FY 2005, however, appropriators synchronized the amount of funding appropriated for housing agencies to align with the calendar year. As a result, only such funds as were needed to cover public housing expenses in that same year were appropriated. This resulted in a one-time savings of $994 million.

Thus, when you compare the actual money being made available to public housing authorities on a year to year basis, the budget proposes a cut of $25 million in the Operating Fund below the FY 2005 level, instead of an increase of almost $1 billion.

This one-time savings was made explicit in a November 20, 2004 press release issued by Republican Committee Chairman Young of the House Committee on Appropriations, which referred to *"a one-time $994 million reduction in operating subsidies due to synchronization of the program to a calendar year basis."*

Finally, if adopted the overall Bush Administration budget for public housing would be $1.575 billion BELOW the level of funding in place when the Bush Administration took office. This is a cut of 30%, after adjusting for inflation."

March 2, 2004

Opening Statement by Congressman Paul E. Gillmor
House Financial Services Committee
Full Committee Hearing on oversight of the Department of Housing and Urban Development

I would like to thank you, Mr. Chairman, for calling this important hearing and allowing us the opportunity to discuss the budget proposal for the Department of Housing and Urban Development (HUD).

HUD is currently facing many difficult management and budget challenges in addressing housing needs in our local communities and certain program reforms are clearly necessary. However, I have heard concerns from constituents in Ohio's Fifth Congressional District regarding the proposed funding levels and reforms to the Housing Choice Voucher (HCV) Program.

As it is estimated that this program will consume 62% of HUD's budget in 2005, it is clear to see its importance to our local communities as housing authorities across the nation try to combat the growing lack of access to affordable housing. I would appreciate hearing more details on the proposal to change the program's funding structure to a block grant. I have heard from housing authorities in Ohio's Fifth District that are concerned that the new funding structure, no longer tied to the number of families being assisted and the rental costs that they face, may fail to keep pace with increases in local rent and utility costs.

Any additional information you can share on this proposal would be greatly appreciated as the HCV provides essential assistance to low income families in my district and across the country with their rent and utilities while also benefiting local economies.

Thank you again, Mr. Chairman, for calling this important hearing and I look forward to an informative discussion.

OPENING REMARKS OF THE HONORABLE RUBEN HINOJOSA
HOUSE COMMITTEE ON FINANCIAL SERVICES
"OVERSIGHT OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT"
MARCH 2, 2005

Chairman Oxley and Ranking Member Frank,

I want to express my sincere appreciation for you holding this hearing today. It is extremely important that this Committee exercise its oversight authority over HUD at a time when the current Administration is proposing such significant cuts to funding of very important programs and transfer of jurisdiction of those same programs to the Department of Commerce, where they will be forced to compete for funding and be administered by agency staff unfamiliar with the programs.

These proposed program funding cuts and jurisdictional changes could cost my district $15 million in Community Development Block Grant program funding alone in Fiscal Year 2006. Overall, my district could lose $19 million in federal funding for important housing and community development programs at a time when Texas, its cities and localities are strapped for cash and in need of federal funds. Community development programs used by cities to build up impoverished neighborhoods would lose $9.2 billion in five years, a 36 percent cut in 2010. Most of these cuts would come out of state and local budgets, adding to the burdens their taxpayers would have to take up if services are to be maintained. The President's proposal does not restructure the cost of HUD's program funding. It simply transfers the cost of maintaining affordable housing programs to the states.

As most of you are aware, the Bush Administration has proposed eliminating 18 federal community development programs in five departments, replacing them with a single new program at the Commerce Department, and cutting total funding by nearly $2 billion – from $5.6 billion to $3.7 billion – about 35%. Community development activities will suffer greatly if these important programs and funding disappear.

The 18 endangered programs are: HUD: Community Development Block Grants ($4.11 billion); CDBG set-asides ($302 million); Section 4 community capacity building grants ($30 million); Rural Housing and Economic Development grants ($24 million); Brownfields ($24 million); Section 108 loan guarantees ($6 million); Urban Empowerment Zones ($10 million). Treasury: CDFI grants; Bank Enterprise Awards; and CDFI Native Initiatives ($55 million). USDA: Rural Business Enterprise Grants ($40 million); Economic Impact Grants ($21 million); Rural EZs/ECs ($12 million); Rural Business Opportunity Grants ($3 million). HHS: Community Services Block Grant ($727 million); Urban and Rural Community and Economic Development ($33 million); Rural Community Facilities ($7 million). Commerce: Economic Development Administration ($255 million).

In February, I wrote President Bush to register my serious concerns with the housing and community development program funding cuts proposed in the Administration's Fiscal Year 2006 budget. In that letter, I expressed particular concern about proposed cuts to HUD's Community Development Block Grant program (CDBG), the elimination of funding for the Rural Housing Economic Development (RHED) program and cuts to the USDA's Section 515 funding.

As a Member of the House Financial Services Committee and Chairman of the Congressional Rural Housing Caucus, I urged, and will continue to urge, the President, the Budget Committee and the Appropriators to seek adequate funding for these vital programs, especially those that impact rural areas across the United States. I will remain concerned about the fundamental changes contained in the proposed budget that would realign critical housing programs into different agencies, resulting in a net loss of funding for the creation of affordable housing. I will also work with my like-minded colleagues in the House and the Senate until the proposed program funding cuts and jurisdictional transfers are defeated.

I believe that the President and HUD have failed to realize that there is an affordable housing crisis in our country today. Housing costs have grown faster than wages and inflation. Millions of families, seniors, persons with disabilities, and veterans are being squeezed out of the housing market. HUD's housing and community development programs and USDA's Rural Housing Service programs are essential to respond to this crisis.

Affordable housing promotes access to jobs and employment stability, better public health, and improved school performance for children. It reduces homelessness and its associated costs to taxpayers. It provides a dignified existence for seniors and people with disabilities and tends to result in much safer neighborhoods.

Affordable housing means stronger communities for everyone. Federal investment in community and economic development must be maintained at its current level if not augmented. Any actions taken to dilute federal investment in economic and community development will deprive cities and localities of the resources they need to address the infrastructure demands of population growth. The President's proposed housing budget cuts may increase unemployment and reduce much-needed private-sector investment.

In light of America's housing needs, the funding levels proposed by the Administration's FY2006 budget are woefully inadequate. Inadequate funding would destabilize our nation's vulnerable communities and withhold essential help from many of the lowest income households.

The President's budget request would do serious harm to housing and community development programs and the people that rely on them in my district. For example, I received over 50 letters from children at a Boys and Girls Club in my district begging me not to cut the CDBG funds that keep the Club open.

Funding needed by cash-strapped communities and states would be cut. The importance of this funding is clear as you, Secretary Jackson, noted in a HUD press release dated September 13, 2004. In that release, you awarded 14 communities across the United States HUD's Community Development Excellence Award "for their outstanding work in using Community Development Block Grant funding to create better communities and to improve the lives of their lower income residents." Two of the awardees were the Texas Department of Housing and Community Affairs and Pharr, Texas, in my own district, for its incredible turnaround of LasMilpas colonia in South Pharr into a thriving community using CDBG funds.

Given that release, I find it odd, to say the least, that President Bush would propose such cuts less than five months after issuing a press release praising the CDBG program.

Such cuts would prevent communities in my district from repositioning themselves in the changing global economy.

The Administration seems to be ignoring the fact that the CDBG program has met its mission by providing decent housing and a suitable living environment for my constituents while expanding economic opportunities, principally for low- and moderate-income persons.

Cutting the Community Development Block Grant program funding 35% and transferring it to the Department of Commerce would result in $1.16 billion less funding for low-income housing. Eliminating the $4.8 million provided to National Council of La Raza in FY 2005 for affordable housing and technical assistance, as proposed in the President's budget, would do much harm to minorities in our country. Under the President's budget, USDA's Section 515 program, the core USDA Rural Housing Service affordable housing program, would be cut by 73%, and it would eliminate the 515 program's authority to fund new construction. There does not appear to be any logic to these cuts and proposed jurisdictional transfers.

As noted, the proposed budget would eliminate the $24 million HUD Rural Housing and Economic Development Program by consolidating it along with 17 other programs in the Department of Commerce. The poorest of the poor, such as those living in colonias in my district, rely on the RHED program for affordable housing. All of these cuts and actions are objectionable.

While I commend the President for proposing vouchers to support tenants who may be displaced by prepayments in the USDA Section 515 rural rental program, I oppose the proposal to cut this important resource by almost 75% to $27 million. The 515 program supports the neediest rural people. Over half of 515 tenants are elderly or disabled. This program's funding should remain level or increased.

HUD is supposed to be committed to increasing homeownership, particularly among minorities; creating affordable housing opportunities for low-income Americans; and, supporting the homeless, elderly, people with disabilities and people living with AIDS.

The Department is also supposed to promote economic and community development as well as enforce the nation's fair housing laws.

If that is the case, why would the President's FY'06 budget eliminate the HOPE VI public housing revitalization program and rescind the $143 million funded in FY'05, basically eliminating HOPEVI? Why does the proposed budget cut funding for public housing authorities by $270 million? The overall request is 30% lower in real terms than when the Bush Administration took office. Why is the President proposing a $66 million (4%) cut in HOME block grants? Why is the President proposing cutting critical provisions of Section 8 Vouchers legislation that target funds to the poorest families and maintain vouchers at levels that make housing affordable? Why is the Administration proposing that Congress cut funding for Housing Opportunities for People with AIDS by $14 million, a 5% cut? Why is the Administration proposing a 16% cut in Section 107 grants, which fund Historically Black Colleges and Universities, Hispanic Serving Institutions, Community Development Work Study and other similar programs? And why is the President proposing to eliminate the $62 million Youthbuild program that serves inner city youth, by consolidating it with other Department of Labor programs?

The President's Fiscal Year 2006 budget proposal for housing program funding raises serious concerns and seems to run contrary to HUD's mission statement. I hope that President Bush, the Congressional Budget Committees and the Appropriators will reconsider the proposed funding cuts to housing programs as the President's budget proceeds through Congress and that they ultimately will be defeated.

Opening Statement of Congressman Jim Matheson
House Committee on Financial Services
Oversight Hearing on the Department of Housing and Urban Development
March 2, 2005

Chairman Oxley, Representative Frank, Members of the Committee, I appreciate the opportunity to make a few comments at the beginning of this important hearing. Secretary Jackson, I appreciate your presence here today to provide additional information on the activities of the Department of Housing and Urban Development (HUD), specifically in relation to HUD's budget request for Fiscal Year 2006.

HUD's activities surrounding housing and development are critical in building safe and supportive communities throughout our country. I recognize the importance of housing to individuals' well-being. Shelter is a primary need for all humans, and acquiring adequate housing is a basic step on the road to self-sufficiency and fulfilling the American Dream.

I would like to share some concerns and perspectives related to several proposals contained in the President's Fiscal Year 2006 budget request. I do not approach these as partisan matters. I do not believe that all good ideas or sound policy comes from a particular political party. Rather, I approach these matters tuned to the constituents that I am here in Congress to represent and with a perspective on how seemingly simple changes here in Washington, DC can have enormous implications for communities in Utah.

I want to begin by recognizing several important initiatives contained in the President's budget. These include additional funding to help promote homeownership and to end chronic homelessness. I applaud the Administration's recognition of the need for improved financial literacy and down-payment assistance that furthers homeownership and helps to build individual assets and strong communities. In addition, I am pleased to see recognition of the need to improve the continuum of care to end chronic homelessness. This is not a problem requiring multi-disciplinary approach.

While both of these are very worthy efforts, I am concerned about the creation of new programs at the expense of existing programs. This concern is not a territorial battle about programmatic goals, it is a concern based on the fact that such a shift in focus may actually cause additional individuals to lose their housing, thus not decreasing, but increasing challenges, such as homelessness.

I want to focus on three specific areas of concern about which I hope to gain additional information during this hearing and as Congress considers these proposals in further detail.

First, while I am grateful to see an increase in the funding request for the Housing Choice Voucher program of $1.079 billion compared to 2005, I am concerned that the funding provided for 2005 is substantially below the amount needed to renew existing housing vouchers. I am particularly concerned because it is my understanding that part of the cause of this current shortfall was inaccurate information supplied to members of congressional appropriations committees and sudden changes by HUD in the voucher funding formula in 2004.

On a national level these shortfalls total nearly $570 million, or 80,000 vouchers. But, at the local level these are much more than numbers. Local housing authorities in my home state of Utah were particularly hard hit because of a decrease in their fair market rent. Many of them have had to cut the total number of vouchers in use or have shifted additional costs onto families currently receiving vouchers. This means that while there are multi-year waiting lists for individuals to receive Section 8 vouchers, not only are no new vouchers going to become available, well over 500 families in Utah will be losing their voucher assistance completely. Most of these cases involve single women with children, many victims of domestic violence, since elderly and disabled recipients are more protected from such losses. In addition, the Salt Lake VA Healthcare System expects to serve fewer veterans in transitional housing as the possibility of moving them onto Section 8 vouchers is reduced.

Despite proposed increases in funding, HUD's shift away from guaranteeing funding for existing vouchers and towards a dollar-approach means this year's appropriations will likely leave many more individuals with reduced or eliminated vouchers. In addition, regulatory relief is a necessity for local housing authorities struggling to meet their commitments under the current law without adequate funding to do so.

Second, I am concerned about proposals to restructure the Community Development Block Grant (CDBG) program and roll it into a broader program in the Commerce Department. As in so many communities, CDBG monies are essential to the local housing, infrastructure, and service goals throughout my district. The success of CDBG has been its flexibility and local responsiveness. In addition, its particular focus on critical public services and community infrastructure needs is distinct from the economic goals of the Commerce Department. I have concerns about the administration, structure, and objectives of this revised program. In addition, I am concerned about the funding request for this consolidated program that would result in 35% less funding being made available for the combined 18 programs which currently serve our local communities.

Thirdly, I am concerned about the elimination of the Rural Housing and Economic Development Program and the reduction in funding for Native American Housing Block Grants. I along with my colleagues from this committee held a hearing on Native American Housing last year on the Navajo Reservation. Few locations in all of the United States demonstrate the housing needs that this and other American Indian Reservations do. Following that hearing, we have made bi-partisan commitments to improving the assistance available for Native American Housing programs. I am concerned that cuts to this program and the Indian Community Development Block Grants set-aside under CDBG, resulting in a 16% reduction in Indian housing funds, does little to address the significant housing needs we desire to alleviate.

Again, I appreciate the opportunity to speak with you today. I look forward to additional information and clarifications related to these and other proposals.

Opening Statement of the Honorable Bob Ney
Chairman, Subcommittee on Housing and Community Opportunity

Hearing on the Department of Housing and Urban Development's FY 2006 Budget Proposal

Wednesday, March 2, 2005

I want to welcome the Secretary of Housing and Urban Development before our committee, and thank you, Chairman Oxley, for holding this important hearing to examine both the programs and the budgets specific to the Department of Housing and Urban Development. Those of us on the Committee are acutely aware of the many difficult management and budget challenges inherent to the Department. I would like to take this opportunity to pledge to work with you to address these many challenges and to continue to create new opportunities for families and individuals seeking to find affordable housing and to realize the dream of homeownership.

Last Congress, this committee assisted in the successful enactment of 15 housing related bills. Through bipartisan cooperation and coordination, this Committee and the Administration were able to enact legislation that today is making existing housing programs work better.

I am pleased that the President's proposed budget continues the President's commitment to increasing homeownership and to fostering an "ownership society." Homeownership is the key to financial independence, helps build stronger communities, and offers children a stable and positive environment in which to grow and develop.

However, while far more American households now share in the benefits of homeownership, minority households continue to share at substantially lower rates. The homeownership rate among Caucasian households is about 74.2 percent while the percent for minority households is substantially less.

Lagging minority homeownership rates are a serious concern. Minority households are expected to account for two-thirds of household growth over the coming decade.

Improving the ability of such households to make the transition to homeownership will be an important test of the nation's capacity to create economic opportunity for minorities and immigrants and to build strong, stable communities.

While homeownership is a desired goal for many Americans, there are many in today's society that are not yet ready to own their own home. It is, therefore, prudent that we continue to pursue alternatives to make sure that affordable rental

housing is available. We must also make sure that assistance is there for those that truly need it.

As you know, the section 8 housing assistance program is the major vehicle for providing rental assistance to low-income families and individuals. Today the section 8 program has become the largest component of the Department of Housing and Urban Development's budget. The rising cost of providing rental assistance is due, in varying degrees, to expansion in the program, the cost of renewing expiring long-term contracts, and rising costs in housing markets across the country. The day of reckoning is coming fast; if we do not address the increasing costs of this program it will consume the HUD budget. It is already affecting the funding of other programs within HUD.

Last Congress, we held six hearings on the Administration's proposal to block grant the section 8 voucher program to the states. In the coming weeks, I will be holding the first roundtable discussion that will focus on the future of the Housing Choice Voucher Program. The goal of this roundtable discussion will be to identify the top-level issues regarding the current operation, administration, and funding of the Housing Choice Voucher Program and to craft solutions that will address the effectiveness and efficiency of the government's role in the administration of the program.

While I recognize that there are key questions regarding funding of the Housing Choice Voucher Program, this roundtable discussion will focus strictly on proposals to reform the program to make it a viable alternative in the future. These roundtables will be conducted in an informal setting to facilitate a productive dialogue.

I trust that we can engage in meaningful discussions with my colleagues on the other side of the aisle and the Administration to find a solution to the escalating costs of the section 8 program. Not a day goes by that I don't talk to a constituent or organization concerning the problems inherent to this program, such as long waiting lists, lack of affordable section 8 voucher housing, and various PHA funding concerns. The longer we wait to address the increasing costs of the section 8 program, the greater risk there is to the section 8 program as well as the other programs at HUD that will most surely suffer additional cuts at the behest of section 8.

Mr. Secretary, President Bush's FY06 budget proposal for HUD raises some interesting and serious questions about what role community development should play in helping local and state governments provide safe and affordable housing to its constituents. The President's budget proposes a new $3.7 billion program within the Department of Commerce called the Strengthening America's Communities program. This new program would consolidate and reduce the funding for HUD's Community Development Block Grant and several other Federal economic and community development programs. I applaud the Administration's stated goal of creating a more targeted and unified program with stronger accountability standards and more flexibility. However, significant concerns have been raised about how this new program will meet the development needs of communities,

especially in distressed areas. This proposal raises important questions and I look forward to working with Secretary Jackson and this Administration to meet the development needs of our communities.

Before I close, I want to turn my attention to the Government Sponsored Enterprises (GSEs) and their housing affordability goals. Clearly this is an issue that will have a profound impact on America's housing policy.

I represent rural Ohio where the average loan purchased by Fannie Mae and Freddie Mac is around $100,000. My focus is to make sure these companies fulfill their congressional mandate to serve as a liquidity source in all markets, at all times. This means they serve not only the lower income families in the inner cities and other rural or underdeveloped areas, but also for suburban and middle income America. Over the past year, I have been a strong voice in forcing Fannie Mae and Freddie Mac to stay actively engaged as secondary market participants in the manufactured housing industry.

I intend to pay careful attention to HUD's rule that recently went into affect that raises the low-mod goal from 50 percent up to 57 percent by 2008. I want these companies to serve more families, but I also worry about a rule that pushes the companies to the point of forcing a potential credit allocation to the low end of the market and negatively affecting middle income and middle class America.

I believe that strengthening the regulation of the GSEs will enable them to continue their mission of expanding homeownership opportunities and do so in a manner that ensures their safe and sound operations. I look forward to working with the leadership of this committee as we move toward legislation.

In closing, let me say that the federal government, consumers, and the housing industry are linked by our mutual goal of creating housing opportunities for more Americans.

We have much to achieve together for the American people, and our best hope for success is to work in close concert with each other – guided by the same high standards and principles and motivated by the same goals.

I look forward to working together with my ranking member Maxine Waters as we continue to open up our communities to new opportunities for growth and prosperity. Thank you.

Opening Statement
Congressman David Scott
March 2, 2005
House Committee on Financial Services
Oversight Hearing on the Department of Housing and Urban Development

Mr. Chairman, the Administration's FY 2006 budget fails to reduce the deficit and leaves out the costs of for Social Security reform and military actions in Iraq and Afghanistan. Yet, the budget cuts housing programs that serve low-income families, the elderly and disabled persons. Included in the budget cuts are Community Development Block Grants (CDBG), HOPE VI grants, Section 8 vouchers, and home buying counseling grants.

The Department of Housing and Urban Development (HUD) budget is cut by $3.85 billion, from $32.358 billion to $28.51 billion. Seven HUD programs would be cut by a net 35 percent and transferred to the Commerce Department, including CDBG grants. I have heard from nearly every city and county in my district about the devastating effects that the CDBG cuts will have on their communities. A clear rationale for moving these programs from HUD, which is familiar with urban revitalization, to the Department of Commerce, has yet to be provided.

I am disappointed that the budget eliminates HOPE VI for the third straight year and rescinds $143 million from previous years' funding. Since its inception, HOPE VI has been used to revitalize the nation's most distressed public housing units by razing old developments and replacing them with neighborhoods. The HOPE VI program is important to my district because both the Fulton County Housing Authority and Atlanta Housing Authority have received HOPE VI grants to improve their communities. The Atlanta model of mixed-income community development is a proven, sustainable neighborhood strategy that is reducing institutional poverty. If the Administration wants to create an "ownership society," then it should not cut HOPE VI.

In FY 2005, Congress rejected both the Bush Administration's proposal to block grant the voucher program and reduce funding by $1.6 billion. For FY 2006, the Section 8 budget request is reduced by $90 million. These cuts will force a large number of housing authorities to either cut the number of vouchers being used or reduce the rent subsidy, thus leaving many poor families without housing options.

The FY 2006 budget proposes to cut home counseling funding from $41.664 million to $39.7 million. Given the devastating impact of predatory lending in many communities, Congress should not cut back on efforts to educate consumers about the homebuying process. I have again introduced legislation, H.R. 200, to create a housing counseling program and establish a 1-800 number for consumers to call before signing loan papers. By expanding homeownership through education, the Administration can reduce the need for future housing assistance programs.

The federal budget should be an honest blueprint for the spending priorities of the government. However, this budget is not honest. It is passing our obligations,

responsibilities and challenges to our children and grandchildren, while cutting programs that benefit the poorest among us. The 12 percent cut in the HUD budget is unnecessary and represents the largest percentage cut of any federal cabinet-level agency. These cuts will hurt low-income families and place more burdens on state and local governments. I urge my colleagues on this committee to reject these unnecessary cuts and work to improve the capacity of programs to address critical community needs.

Statement for the Record
Congresswoman Nydia M. Velázquez
FSC Hearing on the FY 06 HUD Budget
March 2, 2005

Access to affordable housing is critical to the success of families across America. Without a stable home, many families struggle to break the cycle of poverty are unable to provide the safe, healthy environment their children to succeed in school and beyond. Despite housing being a foundation for upward mobility, the Bush administration has, once again, proposed to slash funding for countless critical housing programs, turning his back on the nation's neediest and most vulnerable families.

President Bush's FY 2006 budget cuts funding for the Department of Housing and Urban Development (HUD) by 11.5 percent, jeopardizing the housing of low-income, elderly and disabled families and individuals across the country. This cut is the largest proposed cut to any federal cabinet-level agency.

Beginning with the Administration's misguided proposal to transfer the Community Development Block Grant (CDBG) program to the Department of Commerce, the budget is yet again an attack on hard working low-income families. The CDBG proposal alone could end up resulting in a 35 percent cut to this critical program, with $1 billion cut specifically from housing initiatives.

The public housing operating and capital funds, which are vital to the maintenance, security and improvement of developments, are cut significantly by $270 million. As a result, Public Housing Agencies (PHAs) will be forced to make extremely difficult decisions about how to prioritize the maintenance of their properties, potentially putting the health and safety of tenants at risk. Once again, the budget also fails to provide funding for HOPE IV modernization projects and the Drug Elimination Program, which helps reduce crime in federally-assisted housing developments.

Programs protecting vulnerable populations like the elderly, disabled and individuals living with HIV/AIDS also suffer under the President's proposal. Section 202 housing for the elderly is flat funded, Section 811 housing for the disabled is reduced by a staggering 49 percent, and the Housing Opportunities for Persons With AIDS (HOPWA) program is cut by $14 million. The Office of Healthy Home and Lead Hazard Control, which funds programs that protect our most at-risk low-income children from the hazards of lead paint and other toxins, is cut by 29 percent – or $48 million – under President Bush's proposal. The FY '06 budget request demonstrates the Administration's ongoing, willful disregard of the nation's most needy communities in favor of tax cuts for the wealthy and handouts for big business.

PHAs are still recouping from the affects of last year's dangerous proposal to block grant the Section 8 program and it is expected that a similar legislative proposal will be brought before Congress shortly. Limited resources and gaping budget shortfalls for FY '05 have forced many housing agencies to scramble for resources. The two agencies that administer vouchers in New York City are $50 million short of what is needed to fund all current vouchers – and the outlook is not good for the coming year either. With private sector confidence in the Section 8 program waning, it is critical that we ensure that the sole source of housing support for the lowest income families is protected and strengthened not reduced.

Hard working families across the nation are barely making ends meet as the gap between housing costs and wages continues to widen and education costs skyrocket. The policies pursued by the Administration and the Republican leadership deny low-income communities the resources they need to free themselves from the constraints of poverty and achieve lasting economic stability for future generations. By failing to provide adequate funding for the programs that help families achieve these goals, the President is creating serious long-term consequences for America's low-income families - and the country as a whole.

This year's HUD budget is a budget of contradictions. The President proposes to increase funding for programs serving the homeless, while slashing the rental programs that protect families from becoming homeless in the first place. He focuses resources on homeownership programs while cutting the housing counseling programs that ensure families are prepared to buy a home. This nation needs a comprehensive policy that recognizes housing as a continuum of inter-related services ranging from homelessness to rental to homeownership programs, not a system of haphazard policy decisions made in a vacuum like the President has proposed.

WRITTEN STATEMENT OF

SECRETARY ALPHONSO JACKSON

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

BEFORE THE

UNITED STATES HOUSE

COMMITTEE ON FINANCIAL SERVICES

MARCH 2, 2005

OVERVIEW

Chairman Oxley, Ranking Member Frank, Distinguished Members of the Committee:

Thank you for the invitation to join you this morning. I am honored to outline the Fiscal Year (FY) 2006 Budget proposed by President Bush for the U.S. Department of Housing and Urban Development (HUD).

Over the past four years, HUD has expanded homeownership, increased access to affordable housing, fought housing discrimination, tackled homelessness, and made a new commitment to serving society's most vulnerable. The Department has implemented innovative solutions to address our nation's housing needs, and our results have been impressive and measurable.

HUD's $28.5 billion in new net budget authority for FY 2006 seeks to build on our success and lend a compassionate hand to individuals in need, while also using taxpayer money more wisely and reforming programs in need of repair. The HUD budget proposed by the President reflects this intent through three broad, yet focused strategic goals: promoting economic opportunity and ownership, serving society's most vulnerable, and making government more effective.

In his February 2 State of the Union Address, the President underscored the need to restrain spending in order to sustain our economic prosperity. As part of this restraint, it is important that total discretionary and non-security spending be held to levels proposed in the FY 2006 Budget. The budget savings and reforms in the Budget are important components of achieving the President's goal of cutting the budget deficit in half by 2009 and we urge the Congress to support these reforms. The FY 2006 Budget includes more than 150 reductions, reforms, and terminations in non-defense discretionary programs, of which eight affect HUD programs. The Department wants to work with the Congress to achieve these savings.

Promoting Economic Opportunity and Ownership

The President's vision of an "ownership society" has been a central theme of his Administration. Ownership – and homeownership in particular – is the key to financial independence, the accumulation of wealth, and stronger, healthier communities.

Homeownership creates community stakeholders who tend to be active in charities, churches, and neighborhood activities. Homeownership inspires civic responsibility, and homeowners are more likely to vote and get involved with local issues. Homeownership offers children a stable living environment, and it influences their personal development in many positive, measurable ways – at home and at school.

Homeownership's potential to create wealth is impressive, too. For the vast majority of families, the purchase of a home represents the path to prosperity. A home is the largest purchase most Americans will ever make – a tangible asset that builds equity, good credit, borrowing power, and overall wealth.

In 2004, more Americans achieved the dream of homeownership than at any time in our nation's history. Today, nearly 70 percent of American families own their homes – an all-time record – and minority homeownership has surpassed 51 percent for the first time in history.

That figure, however, points to a significant homeownership gap between non-Hispanic whites and minorities. In June 2002, the President challenged the nation to create 5.5 million new minority homeowners by 2010. Since the President's challenge, 2.2 million minority families have joined the ranks of homeowners, and we are on track to meet the 5.5 million goal.

The Administration is working to make homeownership more affordable and more accessible. Government should do everything it can to help families find the security, dignity, and independence that come with owning a piece of the American Dream.

For many Americans, high downpayments and closing costs represent the greatest barrier to homeownership. To help overcome this obstacle, the President proposed the American Dream Downpayment Initiative to provide low- and moderate-income families with the funds and support needed to purchase their first home. On December 16, 2003, President Bush signed the American Dream Downpayment Initiative into law, and since then, HUD has distributed $162 million in downpayment funds to over 400 State and local governments. These funds have already helped over 3,500 families purchase their first homes – of which more than 50 percent were minorities. The 2006 Budget requests $200 million to fully fund the Initiative.

Helping families learn about the loan products and services available to them and how to identify and avoid predatory lending practices is critical to increasing homeownership. Housing counseling has proven to be an extremely important element in both the purchase of a home and in helping homeowners keep their homes in times of financial stress. The FY 2006 Budget proposes $40 million for Housing Counseling to assist over 700,000 families to become homeowners or avoid foreclosing on their homes. This effort will fully utilize faith-based and community organizations.

To remove two of the largest barriers to homeownership – high downpayment costs and impaired credit – the Budget proposes two mortgage programs. The Zero Downpayment Mortgage allows first-time buyers with a strong credit record to finance 100 percent of the home purchase price and closing costs. For borrowers with limited or weak credit histories, a second program, Payment Incentives, initially charges a higher insurance premium and reduces premiums after a period of on-time payments. In 2006, these new mortgage programs will assist more than 250,000 families achieve homeownership.

The President is also proposing a new Single Family Homeownership Tax Credit that could increase the supply of single-family affordable homes by an additional 50,000 homes annually. Under the President's plan, builders of affordable homes for moderate-income purchasers will receive a tax credit. State housing finance agencies will award tax credits to single-family developments located in a census tract with median income equal to 80 percent or less of area median income and will be limited to homebuyers in the same income range. The credits may not exceed 50 percent of the cost of constructing a new home or rehabilitating an existing property. Each State would have a homeownership credit ceiling adjusted for inflation each year and equal to the greater of 1.75 times the State population or $2 million. In total, the tax credit will provide $2.5 billion over 5 years.

As you know, tax legislation is the responsibility of the Treasury Department, but we will be working with Treasury's Office of Tax Policy to ensure that the credit legislation addresses issues such as disclosures, so that the credit operates smoothly.

The Homeownership Voucher program, while still new, has successfully paved a path for low-income Americans to become homeowners. Together with pre- and post-homeownership counseling, strong and committed collaboration among Public Housing Authorities (PHAs), local non-profits, and lenders has proven to be essential in making the program work for families across the country. The greatest challenge to the success of the program is finding lenders who are willing to participate.

Government-sponsored enterprises were chartered to help low- and moderate-income families secure mortgages. HUD recently published a rule that requires Fannie Mae and Freddie Mac to increase their purchases of mortgages for low- and moderate-income households and underserved communities. These new goals will push the GSEs to genuinely lead the market in creating homeownership opportunities for those traditionally underserved by the mortgage markets, particularly first-time homebuyers.

In addition to increasing the housing goals annually from 2005 through 2008, HUD's rule establishes new home purchase subgoals in each of the three goal areas. This is intended to focus the GSEs' efforts on the purchase of home mortgages, not refinancings. HUD projects that over the next four years, GSEs will purchase an additional 400,000 home purchase loans that meet these new and more aggressive goals as a result of the new rule.

As the primary federal agency responsible for the administration of fair housing laws, HUD is committed to protecting the housing rights of all Americans, regardless of race, color, national origin, religion, sex, familial status, or disability. This commitment is reflected in HUD's budget request for FY 2006.

The goal of HUD's fair housing programs is to ensure that all families and individuals have access to a suitable living environment free from unlawful discrimination. HUD contributes to fair housing enforcement and education by directly enforcing the federal fair housing laws and by funding state and local fair housing efforts through two programs: the Fair Housing Assistance Program (FHAP) and the Fair Housing Initiatives Program (FHIP).

The FY 2006 Budget will provide $23 million through FHAP for state and local jurisdictions that administer laws substantially equivalent to the Federal Fair Housing Act. The Budget also provides $16 million in grant funds for non-profit FHIP agencies nationwide to directly target discrimination through education, outreach, and enforcement.

Serving Society's Most Vulnerable

Ending Chronic Homelessness. The Administration is committed to the goal of ending chronic homelessness, and has aggressively pursued policies to move more homeless families and individuals into permanent housing. A chronically homeless person suffers from a disabling developmental, physical, or mental condition or a substance abuse addiction. They have been homeless for a year or more, or they have had repeated periods of extended homelessness. They may occasionally get help and leave the streets, but they soon fall back to a life of sidewalks and shelters.

Research indicates that although just 10 percent of the homeless population experiences chronic homelessness, these individuals consume over half of all emergency homeless resources. Housing this population will free Federal, State, and local emergency resources for families and individuals who need shorter-term assistance.

In July 2002, the President reactivated the Interagency Council on Homelessness for the first time in six years, bringing together 20 Federal entities involved in combating homelessness. Since its inception, the Interagency Council has helped State and local leaders across America draft plans to move chronically homeless individuals into permanent supportive housing, and to prevent individuals from becoming chronically homeless. Today, 47 States and more than 200 county and city governments have joined the Federal effort.

The Budget provides a record level of resources for permanent supportive housing for homeless individuals who have been on the streets or in shelters for long periods. The 2006 Budget provides $1.44 billion for Homeless Assistance Grants ($25 million of which is for the Prisoner Re-Entry Initiative), $200 million more than in 2005. Altogether, the Administration requests $4 billion in 2006 for Federal housing and social service programs for the homeless, an 8.5% increase.

Housing for Special Populations. Housing Opportunities for Persons with AIDS (HOPWA) provides formula grants to States and localities to provide housing to ensure persons with AIDS can continue to receive health care and other needed support. The program also provides competitive grants to nonprofit organizations. In FY 2006, HOPWA will fund an estimated 25 competitive grants and will provide formula funding to an estimated 124 jurisdictions and in total will provide an estimated 67,000 households with housing assistance.

Making Government More Effective

Reforming Community and Economic Development Programs. The Budget proposes a new program within the Department of Commerce to support communities' efforts to meet the goals of improving their economic opportunity and ownership. This initiative will consolidate programs such as Community Development Block Grants into a more targeted, unified program that sets accountability standards in exchange for flexible use of the funds.

Reforming Low-Income Housing Assistance. Another way in which the FY 2006 Budget will make government a better steward of taxpayer money is through reform of the Section 8 Housing Choice Voucher Program.

HUD has three major rental assistance programs that collectively provide rental subsidies to approximately 4.8 million households nationwide. The major vehicle for providing rental subsidies is the Section 8 program, which is authorized in Section 8 of the U.S. Housing Act of 1937. Under this program, HUD provides subsidies to individuals (tenant-based) who seek rental housing from qualified and approved owners, and also provides subsidies directly to private property owners who set aside some or all of their units for low-income families (project-based).

The Housing Choice Voucher Program, the best known of the Section 8 rental assistance programs, provides approximately 2 million low-income families with subsidies to afford decent rental housing in the private market. Generally, participants contribute up to 30 percent of their income towards rent, and the government pays the rest.

In the past, funds have been appropriated for a specific number of vouchers each year. These funds were then given to PHAs based on the number of vouchers they awarded and at whatever costs were incurred.

In 2001, the Housing Certificate Fund, under which both the project-based and tenant-based Section 8 programs are funded, consumed 43 percent of HUD's annual Budget. That had risen to 57 percent in FY 2005, and the trend line continues to increase dramatically in the Department's FY 2006 Budget. This rate of increase, combined with an extremely complex set of laws and rules that govern the program, has resulted in a program that increasingly is difficult to sustain.

In response to rapidly increasing costs, Congress recently converted this "unit-based" allocation system to a "budget-based" system. This made sense, but for the budget-based system to work, program requirements need to be simplified and PHAs need to be provided with greater flexibility.

The Administration proposes to simplify Section 8 and give more flexibility to PHAs to administer the program to better address local needs. Building on changes in the 2005 Consolidated Appropriations Act, the Administration will shortly submit authorizing legislation to this Committee that expands the "dollar-based" approach. PHAs will continue to receive a set dollar amount as in 2005, but they would have the freedom to adjust the program to the unique and changing needs of their communities, including the ability to set their own subsidy levels based on local market conditions rather than Washington-determined rents. Local PHAs will be able to design their own tenant rent policies, and in turn, reduce the number of errors that are made and create incentives to work. The Administration's plan will eliminate many of the complex forms that are currently required to comply with program rules, saving both time and money. Furthermore, the Administration's proposal will reward PHAs for good management through performance-based incentives. These changes would provide a more efficient and effective program, which helps low-income families more easily obtain decent, safe, and affordable housing.

Human Capital. After many years of downsizing, HUD faces a large number of potential retirements and the loss of experienced staff. HUD's staff, or "human capital," is its most important asset in the delivery and oversight of the Department's mission. HUD has taken significant steps to enhance and better use its existing staff capacity, and to obtain, develop, and maintain the staff capacity necessary to adequately support HUD's future program delivery. HUD has revamped its hiring practices, and now fills jobs in an average of only 38 days, instead of the 96-day average originally cited by the Government Accountability Office. Moreover, HUD has synchronized the goals and performance plans of its managers with the overall aims of the agency, and is developing a new managerial framework through recent hiring and executive training programs.

Competitive Sourcing. In April, HUD announced its first public-private competition, focusing on the contract administration and compliance monitoring functions associated with its assisted multifamily housing properties. Through this competition and others that are being considered, HUD hopes to realize cost efficiencies and significantly improve performance.

Improved Financial Performance. HUD has striven to enhance and stabilize its existing financial management systems operating environment to better support the Department and produce auditable financial statements in a timely manner. While still suffering from internal control weaknesses, HUD met the accelerated timetables for producing its performance and accountability report, and improved the reliability, accuracy, and timeliness of financial systems. HUD is continuing efforts to reduce its internal control weaknesses from 10 to 7 by next year.

E-Government. HUD completed security reviews for all of its information systems in calendar year 2004, and plans are in place to eliminate security defects by next year. HUD awarded its large contract for core IT infrastructure, successfully resolving a protest that lasted for two years.

HUD Management and Performance. Today, public and assisted housing residents live in better quality housing with fewer safety violations than four years ago. HUD increased the percentage of projects meeting its physical condition standards in public housing by 9 percentage points (from 83 percent in 2002 to 92 percent in 2004) and in subsidized private housing by 8 percentage points (from 87 percent in 2002 to 95 percent in 2004). HUD now turns around at least 45 percent of public housing authorities classified as "troubled" within 12 months rather than the 2 years allowed by regulation. New rules and procedures have virtually eliminated property flipping fraud from the FHA insurance programs, and close monitoring will continue to prevent such abuses. New rules and procedures have forced out bad appraisers from the FHA program and our "Credit Watch" lender monitoring initiative will continue to bar other individuals who improperly raise the risk of loss in these programs. Since 2002, HUD has worked with stakeholders to streamline their Consolidated Planning process into an easy-to-use and helpful tool for communities.

Faith-Based and Community Initiative. HUD expanded its outreach to community organizations, including faith-based organizations, attempting to level the playing field for its formula and competitive grants. HUD has removed all discriminatory barriers to participation by such organizations. HUD's technical assistance has helped these organizations understand the application process as well as the responsibilities for implementation. These organizations are beginning to compete more widely and effectively as shown in their success in increasing the number of grants from 659 in 2002 to 765 in 2003, a 16 percent improvement.

Improper Payments Initiative. At the beginning of the President's first term, HUD committed to working with its stakeholders to reduce the improper payment in rental subsidies by one-half by 2005. At that time, over 60 percent of rental subsidies were incorrectly calculated by program sponsors due to improper interviews, inadequate income verifications, misunderstood program rules, and computational errors. Other errors resulted from inadequate verification of tenants' self-reported incomes. Four years later, HUD has achieved exactly what it committed to do. There has been a 27 percent reduction in improper subsidy determinations by program sponsors over the past four years. More importantly, there has been a 50 percent reduction in improper payments amounting to $1.6 billion.

Beginning in 2005, HUD will expand the verification of tenant self-reported incomes to include recent wage data. This has the dual benefit of both improving accuracy and providing more privacy because income data will be matched electronically whereas current procedures require a paper verification letter to the tenant's employer. These stewardship efforts improve confidence that the right person is getting the right benefit in a timely, dignified, and private manner as intended under law. Because this is the first quarter that agency efforts were rated, progress scores were not given.

CONCLUSION

All of us share the goal of creating housing opportunities for more Americans. We have done great work over the past four years, and we should be proud of

everything we have accomplished together. But we should not be satisfied, because our work is far from being finished.

I look forward to the work ahead, as we seek to open the American Dream to more families and individuals, and open our communities to new opportunities for growth and prosperity.

I would like to thank all the members of this Committee for your support of our efforts at HUD. We welcome your guidance as we continue our work together.

Thank you.

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February 14, 2005

The Honorable George W. Bush
President
United States of America
1600 Pennsylvania Ave NW
Washington, D.C. 20500-0003

Dear President Bush:

I am writing to register my serious concerns with the housing and community development program funding cuts you have proposed in your Fiscal Year 2006 budget, particularly HUD's Community Development Block Grant program (CDBG) and Rural Housing Economic Development (RHED) program funding and USDA's Section 515 funding. I urge you to seek adequate funding for these vitally important programs, especially those that impact rural residents across the United States. I am also concerned about the fundamental changes contained in your proposed budget that would realign critical housing programs into different agencies, resulting in a net loss of funding for the creation of affordable housing.

There is an affordable housing crisis in our country today. Housing costs have grown faster than wages and inflation. Millions of families, seniors, persons with disabilities, and veterans are being squeezed out of the housing market.

HUD's housing and community development programs and USDA's Rural Housing Service programs are essential to respond to this crisis. In light of America's housing needs, the funding levels proposed by the Administration's FY2006 budget are woefully inadequate. Inadequate funding would destabilize our nation's vulnerable communities and withhold essential help from many of the lowest income households.

The CDBG program has met its mission by providing decent housing and a suitable living environment for my constituents while expanding economic opportunities, principally for low- and moderate-income persons. Affordable housing promotes access to jobs and employment stability, better public health, and improved school performance for children. It reduces homelessness and its associated costs to taxpayers. It provides a dignified existence for seniors and people with disabilities and tends to result in much safer neighborhoods. Affordable housing means stronger communities for everyone. Federal investment in community and economic development must be maintained at its current level if not augmented. Any actions taken to dilute federal investment in economic and community development will deprive cities and localities of the resources they

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need to address the infrastructure demands of population growth. Your proposed housing budget cuts may increase unemployment and reduce much-needed private-sector investment. They would prevent communities in my district from repositioning themselves in the changing global economy.

Cutting the Community Development Block Grant program funding 35% and transferring it to the Department of Commerce would result in $1.16 billion less funding for low-income housing. Eliminating the $4.8 million provided to National Council of La Raza in FY 2005 for affordable housing and technical assistance, as proposed in your budget, would do much harm to minorities in our country. Under your budget, USDA's Section 515 program, the core USDA Rural Housing Service affordable housing program, would be cut by 73%, and you would eliminate the 515 program's authority to fund new construction. There does not appear to be any logic to these cuts and proposed jurisdictional transfers.

Additionally, your proposed budget would eliminate the $24 million HUD Rural Housing and Economic Development Program by consolidating it along with 17 other programs in the Department of Commerce. The poorest of the poor, such as those living in colonias, rely on the RHED program for affordable housing. All of these cuts and actions are objectionable.

I commend you for proposing vouchers to support tenants who may be displaced by prepayments in the USDA Section 515 rural rental program. However, I oppose the proposal to cut this important resource by almost 75% to $27 million. The 515 program supports the neediest rural people. Over half of 515 tenants are elderly or disabled. This program's funding should remain level or increased.

Your budget request would do serious harm to housing and community development programs and the people who rely on them in my district. For example, just today I received over 50 letters from children at a Boys and Girls Club in my district begging me not to cut the CDBG funds that keep the Club open.

Funding needed by cash-strapped communities and states would be cut. The importance of this funding is clear as you noted in a HUD press release dated September 13, 2004. In that release, you awarded 14 communities across the United States HUD's Community Development Excellence Award "for their outstanding work in using Community Development Block Grant funding to create better communities and to improve the lives of their lower income residents." Given that release, I find it odd, to say the least, that you would propose such cuts less than five months after issuing a press release praising the CDBG program.

Your Fiscal Year 2006 budget proposal for housing program funding raises serious concerns, and I hope that you will reconsider them as the appropriations process begins in Congress.

Sincerely,

Rubén Hinojosa

Rubén Hinojosa
Member of Congress

HUD's Responses to Questions from March 2, 2005 budget hearing before the House Financial Services Committee

Mr. Baca #1a

Moving Housing Programs to Commerce

Question: The President's budget proposes to move a number of housing programs from HUD to the Department of Commerce.

How can we ensure that these programs will really continue, and that the underserved will continue to receive the assistance they need?

Response: The President's budget proposes to build on existing economic and community development efforts through the Strengthening America's Communities Initiative (SACI). While the Department of Commerce has the lead in developing the specific authorizing legislation for this new program, the intent is that SACI will provide flexible funding to help America's transitioning and most needy communities. It will consolidate 18 existing programs, simplify access to Federal funds, set new eligibility criteria and establish strong accountability standards to track progress toward the program's goals. The Administration has committed to working with the Congress and other partners to develop a more effective approach to economic and community development. Furthermore, HUD remains committed to its housing programs and the President's Budget continues to reflect this commitment, including increases for the American Dream Downpayment Initiative and HOME.

Mr. Baca #1b

Affordable Housing

Question: How can HUD continue to perform its mission of ensuring low- and moderate-income housing, when many of its programs are being cut and transferred?

Response: The Department's fiscal year 2006 budget focuses on maintaining effective assistance to low- and moderate-income individuals and families. The proposed budget continues strong support for Public Housing programs and priority funding for the Department's largest program, Section 8 housing; provides increased funding for homeless programs and continues strong support and new programs under the Federal Housing Administration. It should be noted that both the Section 8 and homeless programs reflect significant reform proposals that will further increase their impact.

In addition, the HOME program, the Department's major housing block grant program, is proposed to be funded at $1.941 billion, an increase of $41 million over the fiscal year 2005 level. Included in this request is $200 million for the American Dream Downpayment Initiative to help thousands of new families become first-time

homebuyers. The Department remains committed to its essential mission of providing quality housing for those least able to afford it.

Mr. Baca #1c

Providing Continued Assistance to the Public

Question: Can you promise the Congress, in public, that HUD will continue to be able to do its job?

Response: HUD will continue to provide assistance to communities across the nation, even if the Strengthening America's Communities Initiative (SACI) proposal comes to fruition. HUD employees remain committed to our goals of promoting economic opportunity and homeownership, serving society's most vulnerable--homeless individuals and families--and ending chronic homelessness, and making government more effective by reforming the Section 8 program.

Mr. Matheson #1a

Application Process at Odds with Ending Chronic Homelessness

Question: Regarding HUD's Continuum of Care grant application process: Are you aware that HUD's CoC grant application process is at odds with the President's priority to end chronic homeless?

The CoC process involves 3 eligible categories: (1) Transitional housing which is not permanent; (2) disabled housing which can be permanent but can only be located in projects with 20 or fewer units; and (3) innovative housing which is measured on criteria that is too rigid including "national innovation". Subsequently, many innovative and needed projects have no method of receiving funding for projects directly in line with the goals of HUD's CoC grant. Would you be open to fixing this process before the next CoC funding round so innovative permanent housing projects can be funded?

Response: The Continuum of Care (CoC) process is in harmony with and complements the Administration's initiative to end chronic homelessness. Through the Continuum of Care programs, many innovative projects are funded through the traditional statutorily established categories of permanent housing and transitional housing.

Mr. Matheson #1b

Housing Authority of Salt Lake City

Question: For instance, the Housing Authority of Salt Lake City (through their non-profit arm, the HAME) applied for $790,000 for a 100-unit apartment complex

known as the Sunrise Apartments. This is a $9 million project with most of the money coming from local charitable and governmental resources. It will provide highly supportive/permanent housing for 100 chronically homeless individuals with job training and other innovative measures. They did not receive the recently announced CoC grant which was submitted under the Innovative category because the criteria is at odds with instructions contained in the grant application. This seems easy for HUD to fix and would align the CoC with the President's priority. If this cannot be fixed, will the new Samaritan Initiative fix this problem and have enough money for bricks, mortar, and operations for innovative projects so permanent housing can be produced with HUD's financial help?

Response: The project proposed to HUD by the Housing Authority of Salt Lake City applied under the "innovative" category within the Supportive Housing Program (SHP). The project application proposed ineligible activities and inappropriately proposed to mix the use of SHP operating funds with Section 8 Housing Choice Vouchers. While "innovative" is a category within the SHP program, the use of SHP funds for any category, including "innovative," must adhere to the statute and rules associated with the program. HUD has informed the applicant of these deficiencies and proposed how the organization could develop a program for the current funding round, with applications due June 10, 2005.

While the Samaritan Housing Initiative effort for the 2005 Continuum of Care NOFA process will be applied to number one projects in a CoC that will exclusively serve chronic homeless persons, it will not resolve the issue of projects that propose the use of SHP funds for ineligible activities. SHP funds can be used for new construction and rehabilitation as long as all other activities described by an applicant are in accordance with the eligibility rules and regulations that govern the SHP program.

Mr. Matheson #2

Section 8 Vouchers

Question: Regarding Section 8 Vouchers: The State of Utah recently lost approximately $3 million dollars and the ability to help 420 families, disabled, and elderly individuals when Housing Authorities received their budgets in January of 2005. The actual loss of 2004 and 2005 vouchers was much greater than 420 families, but our innovative housing authorities curtailed rent and changed other administrative rules to cap the loss at 420 families, which is within budgeted funds. Though HUD had $500,000,000 more in their budget, the State of Utah was a net looser in this allocation. Do you have an explanation for this discrepancy when our Housing Authorities have been HUD SEMAP high performers and kept their vouchers consistently rented at over 95%?

Response: The State of Utah experienced a decrease in funding of 6.57 percent from 2004 levels ($57,335,169 in 2004 vs. $53,570,162 in 2005) due to three reasons: (1) a Congressionally mandated across-the-board cut of .8 percent to discretionary programs; (2) an overall 4.083 percent reduction in HUD's Section 8 budget compared to actual

needs based on the May through July 2004 VMS data plus inflation (the statutory formula in the 2005 Appropriations Act); and (3) an overall underutilization of vouchers by PHAs in Utah during the May through July, 2004 reporting period. The use of May through July 2004 data is dictated by the 2005 Appropriations Act.

Mr. Matheson #3

Capital Fund

Question: Regarding Public Housing: In HUD's latest budget, Housing Authorities are slated to take a 5% hit in their operating funds and over 10% in their Capital grant funds. This is very significant since they are being asked to change their programs to "Asset Based Management" and cannot initiate the largest change in the Public Housing program in 30 years while losing administrative and capital dollars that make the program so successful in the State of Utah. Is there an answer for this dilemma?

Response: HUD anticipates that the proposed rule implementing the requirement that housing agencies convert to an asset management model will soon be published for public comment. The Operating Fund proposed rule also implements new funding formulas. These funding formulas are based, essentially, on the verified operating costs of other operators of Federally assisted rental housing. Hence, the funding that PHAs are proposed to receive under the new formulas is expected to be sufficient to implement the new asset management requirements and, more importantly, to provide quality housing. In addition, the proposed rule includes add-on funds to assist in the transition to this new management model, including earmarks for information technology, asset management and asset repositioning. Utah has 12 PHAs, 9 of these PHAs would gain subsidy under the new Operating Fund formula.

Although the overall funding for the Operating Fund and the Capital Fund would be reduced in 2006, under the proposed rule for the Operating Fund more than two-thirds of all housing agencies stand to receive an increase in subsidy. For the housing agencies that will receive less operating subsidy, the reduction would be phased in over 5 years to provide for an appropriate transition and adjustment in operating costs. In fiscal year 2006, the Department will be able to fund the Capital Fund accrual of modernization needs, as well as a portion of the modernization backlog. In addition, the 2006 appropriation will allow PHAs access to the private market to obtain capital funds to build and improve public housing under the Capital Fund Financing Program (CFFP). Thus far, the Department has approved 36 CFFP transactions for a total of $1.7 billion.

It is HUD's expectation that moving to an asset management model will increase efficiencies and reduce costs. HUD anticipates that these savings will mitigate reductions in the Operating Fund and Capital Fund.

Mr. Matheson #4a

Title VI

Question: Regarding Indian Housing: The reduction of NAHASDA in this Presidential Budget is roughly $107 million, or 16%, from last year's appropriations. When this program has shown proven success in Indian housing through the NAHASDA, based on the recent Harvard Study "American Indians on Reservations: A Databook on Socioeconomic Change Between the 1990 and 2000 Censuses," why has this area been affected so significantly?

Response: While the Administration's 2006 budget proposal would reduce funding under the Native American Housing Assistance and Self-Determination Act (NAHASDA), this budget still recognizes the low-income housing needs in Native American communities. Most of HUD's programs have taken a pro-rata reduction in order to fund the rising cost of the tenant-based Section 8 program. The Native American Housing Block Grant is expecting to carry over approximately $97 million into fiscal year 2006. Thus, with the $583 million in appropriations along with $97 million in carryover, all requirements are expected to be met. The Department has set goals to increase its recipients' leveraging of Federal dollars with other funding sources. For example, tribes are finding ways to use the leverage provided by Title VI dollars to create financing solutions for housing and community development. This budget also increases the budget authority for Section 184 Indian Housing Loan Guarantee program. These are trends the Department has encouraged and must continue to encourage and promote in an era of austere budgets.

Mr. Matheson #4b

Title VI

Question: The purpose of the Title VI loan guarantee is to assist Indian Housing Block Grant (IHBG) recipients (the tribe) who want to finance eligible affordable housing activities, but are unable to secure financing without the assistance of a federal guarantee. The Title VI loans are 95% guaranteed by HUD with the understanding that the tribe repay the loans from their future IHBG money. With a reduction to IHBG, loans under Title VI are jeopardized because there is potentially no funding for future payments. In some cases the tribe leverages 100% in its IHBG funds to obtain Title VI financing. A significant cut (in this budget, 16%) could cause massive defaults. Do you have any solutions to this precarious situation?

Response: To date, no tribe has leveraged 100 percent of their IHBG for Title VI purposes. The majority of the Title VI loans have been long-term loans that spread the debt over the maximum term of 20 years. The Title VI loan requires the lender to review the loan for soundness before submitting for loan guarantee. When determining the duration of the loans, tribes work with a lender to develop a repayment plan based on the tribe's ability to meet their debt service requirements. The source of repayment on Title VI loans is not limited to NAHASDA IHBG dollars. Presently, tribes are utilizing revenues from program income, proceeds of sale, and NAHASDA block grant funding to make loan payments. Prudent underwriting is the best method to reduce the risk of default. In addition, the Title VI program has not experienced a single default to date.

Mr. Matheson #4c

Title VI

Question: In addition, can you explain how this move is financially sound for HUD's long-term budget projections?

Response: This is a tight budget. Nonetheless, this budget also recognizes the low-income housing needs in Native American communities. The budget request for fiscal year 2006 increases the budget authority for Title VI Program. HUD continues to promote the leveraging of Federal dollars with private investments for both rental housing and homeownership. The proposed budget increases the anticipated output from the Title VI Guarantee Program in fiscal year 2005. In fiscal year 2004, $10.2 million in loan guarantees were issued. For fiscal year 2006 the proposed budget would facilitate $34 million in guarantees -- a 230 percent increase over fiscal year 2004.

In addition, the Title VI loan application process requires that the tribe provide a pro-forma, which includes a detailed cash flow analysis of the proposed activity. The pro-forma data helps the lender and ONAP determine the level of risk associated with the loan based on the duration and sources of repayment.

Mr. Matheson #4d

Title VI

Question: Last spring this committee held a field hearing in Arizona to highlight the terrible housing conditions of Native Americans. One of the issues that came out strong in that hearing is that while HUD is pressing for homeownership and using the Section 184 and Title VI loan guarantees, a major hold-up is the BIA's inability to process title status reports so the loans are kept in limbo. What has the department done to help this situation?

Response: HUD, USDA and the Bureau of Indian Affairs (BIA) created an Interagency Memorandum of Understanding (MOU) Agreement in September 2004. The major goal of the MOU is to streamline the Title Status Report (TSR) process to enable mortgage applicants to receive TSR within 30 days. Because of the MOU, HUD has seen a marked improvement for TSR requests from the Tunica-Biloxi Reservation in Louisiana.

Mr. Matheson #4e

Title VI

Question: If you are working with the Bureau, where do you currently stand on the issue?

Response: The Bureau of Indian Affairs (BIA) has been working closely with HUD and USDA to expedite the Title Status Report (TSR) process. In addition, the BIA is developing new leasing regulations that emphasize the importance of the timely processing of mortgage loan transactions. A new procedure handbook is being created for BIA Land Record Offices. The BIA has solicited input from HUD and USDA on these issues. The addition of new leasing regulations and uniform document processing will create the consistency necessary to encourage more lenders to make loans on Indian Reservations.

Working more closely with the BIA has helped the Office of Native American Programs (ONAP) identify an internal issue that could potentially limit access to HUD programs for Native Americans and delay the issuance of loan guarantees. After studying the situation, HUD has agreed to loosen its requirements for two certified TSRs on leasehold mortgage transactions. By accepting one certified TSR and one informational TSR for HUD Section 184 loans, HUD is reducing the amount of paperwork involved in each transaction and thus decreasing the time necessary to process the request.

In addition, HUD and USDA have identified a couple of potential pilot programs that will demonstrate the benefits of combining resources from multiple agencies to maximize the leverage potential when producing affordable housing.

Mr. Pearce #1

Oversight of Fannie Mae and Freddie Mac

Question: In what function do you intend to support HUD's interest in the oversight of Fannie Mae and Freddie Mac's efforts to provide affordable housing under a new regulatory structure?

Response: In reforming the current regulatory structure, the Administration, including HUD, supports the creation of a strong, world-class safety and soundness regulator. However, the Administration does not believe that this effort should in any way diminish regulatory focus on the Government-Sponsored Enterprises' (GSEs) mandate to achieve their public purposes, including providing financing for affordable housing. HUD has a long history of serving affordable housing markets and has brought this expertise to its work as the regulator charged with overseeing the GSEs' mission-related activities. This includes establishing the annual affordable housing goals that HUD sets by regulation and monitoring and enforcing the GSEs' compliance with those goals. HUD supports a regulatory structure that is appropriately balanced between overseeing safety and soundness issues and the GSEs' compliance with their charter purposes and expects to continue to play a role in ensuring that this balance is maintained.

Mr. Pearce #2

Performance of Fannie and Freddie Mac

Question: One of the responsibilities for enjoying the benefits of being a GSE is that you provide access to mortgage credit for low- and moderate-income families. How would you rate the performance of Fannie and Freddie Mac at achieving their affordable housing mission?

Response: The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA) requires both Fannie Mae and Freddie Mac to achieve annual affordable housing goals. Beginning in 1993, with HUD's first interim notice implementing the housing goals established by FHEFSSA, HUD has steadily increased the level of these goals. Both Fannie Mae and Freddie Mac have increased their purchases of affordable housing mortgages since the housing goals were put into effect. For example, between 1993 and 2003, the percentage of Fannie Mae's mortgage purchases that qualified under HUD's Special Affordable Housing goal rose from 10 percent to 19.3 percent. Similarly, during this period, Freddie Mac's purchases under the same goal increased from 7.2 percent to 17.8 percent.

However, even though both GSEs have improved their performance, they have historically lagged the primary market in providing affordable home purchase mortgage loans to low-income borrowers and underserved neighborhoods. The GSEs also account for a disproportionately small share of the market for important groups such as minority first-time homebuyers.

For example, between 1999 and 2001, HUD estimates that the GSEs purchased only 14 percent of all loans (including both government guaranteed or insured loans and conventional loans) originated for African-American and Hispanic first-time homebuyers. The GSEs also lagged the conventional conforming mortgage market in purchasing loans to minority first-time homebuyers. HUD's analysis indicates that during the period 2001-2003, the conventional market originated an average of 12.3 percent of its loans to minority first-time homebuyers. During this same period, minority homebuyers accounted for about 6.9 percent of the loans purchased by the GSEs, or about one-half of the share of minority first-time homebuyers in the conventional conforming home purchase loan market.

In November 2004, HUD published a new regulation that significantly raised the housing goals for the period 2005-2008 in an effort to encourage the GSEs to at least match HUD's estimate of the market share available to them for mortgages that qualify under each housing goal. HUD also implemented new Home Purchase Subgoals. HUD anticipates that these subgoals will increase the GSEs' support for first-time homebuyers, a market segment where they continue to lag primary market lenders.

Mr. Pearce #3

Rural and Colonias Issues

Question: Please highlight the initiatives, current and proposed, that address the housing and community development issues plaguing rural communities and the *Colonias* areas?

Response: There are no new initiatives planned for rural housing in the fiscal year 2006 HUD budget. The Rural Housing and Economic Development Program and the Community Development Block Grants are proposed to be transferred to the Department of Commerce. The new program at Commerce would be called the Strengthening America's Communities Initiative (SACI), which would integrate a number of federal programs that currently serve the same or similar populations. An important principle behind SACI is the streamlining of federal resources so that communities, especially rural and distressed communities – such as the Colonias – with limited resources, do not have to expend those valuable resources coordinating a vast array of similar community and economic development programs. A key SACI principle is to target funding to those communities most in need of assistance.

Targeted Area. Colonias are unincorporated rural communities located within 150 miles of the U.S.-Mexican Border. They lack the basic necessities most Americans take for granted--running water, electricity and paved roads. Colonias began to be developed in the 1950s and continue to exist for a variety of reasons, such as poor land use regulations. Without safe, sanitary and affordable housing, drinkable water, sewer and drainage systems, colonias struggle on a daily basis with issues often associated with developing nations.

Responding to needs of Colonias. Section 916 of the Cranston-Gonzalez National Affordable Housing Act requires the four southwest border states to set aside up to 10 percent of their annual State CDBG program allocation for use in the Colonias. HUD establishes the percentage for each state annually. For many years, HUD has set the requirement at 10 percent for New Mexico, Texas, and Arizona, and at 5 percent for California, since only one county in California is eligible for the Colonias set-aside. As is true for the State CDBG program as a whole, the states spend the majority of their set-aside funds on public improvements, particularly water and sewer activities. Since the 1991 inception of this requirement, the total set-aside amount for all four states is $186,607,960. The fiscal year 2005 set-aside amounts for each state are as follows:

Arizona:	$1,343,290
California:	$2,341,630
New Mexico:	$1,583,700
Texas:	$8,230,550

In late 2003, HUD issued a policy guidance Notice, "Use of HUD Resources to Assist Colonias." This Notice highlighted several issues in the colonias that could be addressed with CDBG dollars, such as contract-for-deed conversion, infrastructure improvements and the creation of self-help service centers. The Notice also advised grantees on ways to partner CDBG funds with other Federal programs in order to achieve maximum effectiveness.

Examples. Two examples of how HUD has been able to assist colonias can be seen in the Model Colonia Project and Ginnie Mae's Targeted Lending Initiative (TLI).

The Model Colonia project is a comprehensive, community-based planning effort that is taking place in Dona Ana County New Mexico. Dona Ana County is home to the highest number of colonias (37) in the State of New Mexico. The Model Colonia project targets the colonias of Vado and Del Cerro. Vado and Del Cerro were selected due to the areas high need, strong potential for improvement and significant buy-in from local stakeholders.

A major outcome of the Model Colonia project includes a comprehensive plan that paves the way for public and private investment, leading to substantial improvement of living conditions. Many organizations are helping HUD transform Vado/Del Cerro, and residents have taken ownership of the project and are guiding priorities for action. Current partners include the Doña Ana County Board of Commissioners, New Mexico state legislators, the New Mexico Governor, and Federal partners such as the United States Departments of Agriculture and Housing and Urban Development (HUD). The Model Colonia project has also spurred the Doña Ana County Board of Commissioners to prioritize infrastructure needs in the county's other 36 colonias.

Ginnie Mae's TLI assists in addressing homeownership in Colonias communities a reality. Under the TLI, Ginnie Mae, a division of HUD, increases the supply of affordable housing by reducing the guarantee fee by as much as 50 percent when approved issuers originate or purchase home mortgage loans in the Colonias. The reduced fee lowers lender's expenses and provides them an incentive to make more loans in the Colonias.

The Colonias became eligible for Ginnie Mae's TLI in July 2004. The incentive of reduced fees will prompt additional mortgage lending in the Colonias.

Other Colonias Programs. HUD's mission is to increase homeownership, support community development and increase access to affordable housing free from discrimination. HUD's efforts, in addition to CDBG, to assist Colonias communities consist of a coordination effort that identifies existing resources, and collaborates with Federal, state and local partners to improve the lives of people along the U.S.- Mexican Border. This coordination effort, known as the Southwest Border Region (SWBR) Initiative, is not a program and as such, does not have grant dollars. The SWBR Initiative works to ensure that HUD programs and services are used effectively to help these communities.

The housing needs of rural areas are addressed by various current programs at HUD, including the HOME program, with an expanded American Dream Downpayment Initiative component. The percentage of HOME funds distributed to non-metropolitan areas is 40 percent.

Mr. Pearce #4

Housing Assistance Council

Question: Why is the Department not seeking funding for 2006 for the Housing Assistance Council?

Response: This Department, like many Federal agencies, must adapt to greater budgetary stringency. The Department's major priorities for funding included preserving the Section 8 program, increasing Homeless funding, and increasing the American Dream Downpayment Initiative. The set-aside funding for the Housing Assistance Council, previously made available out of the Community Development Block Grant appropriation, involves research in rural housing issues that the Administration believes are of lower priority for this Department

Mr. Clay #1a

Cut in CDBG Funding and Transfer to Commerce

Question: I, like most Members of Congress, am deeply concerned by the drastic budget cuts of the Community Development Block Grant (CDBG) program and the proposed shift of its jurisdiction and oversight from HUD to the Commerce Department. I additionally have questions about whether the efficiency of targeting revenues from CDBG grants will be enhanced or diminished if such a transfer does take place.

In St. Louis, Missouri, the statistics of poverty and lack of housing in North St. Louis qualifies the city for quite a large amount of money from HUD through the CDBG program. Yet much of this money is never seen in North St. Louis and is sent downtown for other projects. We bring money into the city yet the problems still exist. How do we better effect methods to get the money to the areas that produced the justification for the CDBG grants?

Response: One of the hallmarks of the CDBG program has been local control over the project funding process. Local governments are required to assess community needs through the consolidated planning process and to develop projects and activities that address those needs. There is a significant citizen participation component embedded in the planning process that allows and encourages public input. With regard to the distribution of HUD Community Planning and Development (CPD) assistance within the city of St. Louis, the city's Consolidated Annual Performance and Evaluation Report (CAPER) covering program year 2004 contains a series of maps (pp. 150-157) which effectively demonstrate that CPD funding (principally CDBG) is spread across the city. HUD's review of these maps indicates that roughly half of all funded projects in program year 2004 were funded in areas of the city north of Interstate 64, the area generally identified as North St. Louis.

Recently, HUD released a report to the Congress on the CDBG formula and how it performs relative to community development need. This is the fifth time – since 1974 – the Department has prepared the report. In 1983 and 1995 HUD found that CDBG's formula had become increasingly less effective in targeting need. The problem is that while the variables in the formula have not changed since 1978, this country has. We are seeing significant demographic and economic change: some communities have experienced tremendous growth while others are in decline.

Not surprisingly, when HUD began to examine the numbers from the latest Census, the Department saw that the CDBG formula continues to be a less effective vehicle for targeting need. The report, "CDBG Formula Targeting to Community Development Need, offers 4 alternative funding formulas that would improve targeting to community development need and recognizes that any change to the existing formula would result in a significant redistribution of funds. Copies of the report have been shared with the Congress.

It is important to note that overall funding for 35 Federal community and economic development programs is only reduced 4 percent, roughly in line with other domestic spending. The President, via his 2006 Budget, has proposed to consolidate 18 programs (from five agencies) within the Department of Commerce, including the CDBG Program. These programs would be consolidated into one new program – The Strengthening America's Communities Initiative. This initiative would support communities' efforts to meet the goal of improving their economic conditions through, among other things, the creation of jobs.

Mr. Clay #1b

Transfer of CDBG and Efficiency of Targeting Monies

Question: Although I do not favor sending the program over to Commerce, would this result in much more efficient targeting of the monies than is presently practiced?

Response: The legislative proposal for the Strengthening America's Communities Initiative (SACI) is currently under development by the Commerce Department. A key SACI principle is to target funding to those communities most in need of assistance.

Mr. Clay #1c

Housing Problems in North St. Louis

Question: What suggestions do you have that can result in the systematic targeting and then eliminating the housing problems in North St. Louis?

Response: The city of St. Louis is already utilizing a tool established by HUD in the mid-1990's to help encourage targeting of funds to particular neighborhoods. Neighborhood revitalization strategy areas (NRSAs) enable communities to utilize a flexible set of rules

and presumptions to demonstrate benefits to areas covered by an NRSA designation. The city has an NRSA designation overlaying the Federal empowerment zone area, a move that should encourage a greater concentration of CDBG funding in that area. The city could seek additional NRSA designations for other areas of North St. Louis and could also attempt to utilize a similar set of benefits by directing CDBG into projects assisted by community development financial institutions (CDFIs). Further, the city could target additional CDBG resources for housing rehabilitation in the area. The essential point is that the city has a number of options and activities available to provide further assistance to North St. Louis but the city must take the steps to target these resources to the area.

Mr. Clay #2a

Section 8 Vouchers

Question: Many Public Housing Authorities in Missouri still have not received their Year End Settlement Reports from HUD for the fiscal year ending June 30, 2004. They have no way of knowing their financial position until they can reconcile their finances. This sometimes results in recapturing of reserves and sometimes charges of administrative fees.

Why is the process taking so long?

Response: All Year-End Settlement Reports from Missouri for the fiscal year ending June 30, 2004 were processed by the FMC as of March 24, 2005 and promptly mailed out to the Public Housing Authorities (PHAs). These settlements are prepared by PHAs and only reviewed by HUD for accuracy, completeness and compliance with appropriate laws. Only when errors are found do they result in changes to the settlement amounts. The delay for the Year-End Settlements for the fiscal year ending on June 30, 2004 was due to a hold on the settlements while HUD worked to assure correct interpretation of the 105 percent recapture rule in the 2003 Appropriations Act.

Mr. Clay #2b

Section 8 Vouchers

Question: Can it be speeded up?

Response: Yes. The Department has looked into the problems. All of the issues related to delays have been resolved and should not be an issue in the future.

Mr. Clay #2c

Section 8 Vouchers

Question: Will you please look into this problem with our PHAs and expedite the reports to them?

Response: Yes. The Department has looked into the problems. All of the issues related to delays have been resolved and should not be an issue in the future.

Mr. Clay #3a

Operating Subsidy

Question: An overlooked problem within housing agencies is the high rate of personnel turnover. The loss of experienced staff results in inefficiencies and costly training for replacements. It is being experienced that it would have been much cheaper, in the long run, to maintain qualified, experienced staff than to allow the turnovers to occur due to a lack of proper raises.

How do we maintain personnel who have the required knowledge regarding the details of HUD's complicated procedures? You have the experience of working firsthand with the PHAs and understand this dilemma. Please elaborate.

Response: The proposed rule implementing the Harvard Study will streamline and simplify public housing operating procedures, from the submission of annual forms and reports to procurement practices. The costs incurred by other operators of assisted housing in the area of employee recruitment/retention are reflected in Harvard's "benchmark" model. This simplification will result in efficiencies among staff and allow resources to be targeted towards the acquisition and retention of personnel with key skills. HUD anticipates that the rule will soon be published for public comment. We are also encouraging PHAs to work more closely together to share staff and expenses to more effectively manage the program. Over half of all Section 8 agencies manage fewer than 500 vouchers. Currently 400 out of 3,200 PHAs receive 80 percent of public housing subsidies.

Mr. Clay #3b

Operating Subsidy

Question: How do we address the issue of a proper operating subsidy which is the key to this growing problem?

Response: HUD is keenly aware of the need to address the issue of a proper operating subsidy. The Department believes that the recently completed "Negotiated Rulemaking" process on the Operating Fund rule is the key to addressing this issue. Implementation of this rule will provide PHAs with operating funding that is essentially equivalent to the verified costs of other operators of assisted housing.

Mr. Clay #3c

Operating Subsidy

Question: You have the experience of working firsthand with the PHAs and understand this dilemma. Please elaborate.

Response: HUD understands that PHAs need well-trained and qualified staff whose knowledge and experience can help the PHA manage its public housing in an effective and efficient manner. Along this line, the Department is committed to empowering housing agencies so that they can provide and maintain decent, safe, and sanitary housing in good repair. It is for these and other reasons that we support the proposed Operating Fund rule as well as other regulatory changes that will assist PHAs move to asset management.

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