

**THE PROPOSED BUDGET OF THE  
DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT FOR FISCAL YEAR 2003**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON  
HOUSING AND COMMUNITY OPPORTUNITY  
OF THE  
COMMITTEE ON FINANCIAL SERVICES  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED SEVENTH CONGRESS  
SECOND SESSION

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FEBRUARY 13, 2002  
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**WEDNESDAY, FEBRUARY 13, 2002**

U.S. HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON HOUSING AND  
COMMUNITY OPPORTUNITY,  
COMMITTEE ON FINANCIAL SERVICES,  
*Washington, DC.*

The subcommittee met, pursuant to call at 1:35 p.m., in room 210, Cannon House Office Building, Hon. Mark Green, [vice chairman of the subcommittee], presiding.

Present: Vice Chairman Green; Representatives Tiberi, Miller, Baker, Frank, Velazquez, Carson, Lee, Schakowsky, Jones, Capuano, Sanders, Clay, Israel, Crowley, and LaFalce.

Chairman GREEN. The hearing will come to order.

Today marks the first hearing of this session. And we are honored to have the Honorable Mel Martinez, Secretary of the Department of Housing and Urban Development to discuss the Administration's Fiscal Year 2003 proposed budget.

Thank you, Mr. Secretary for appearing before this subcommittee.

I am chairing this hearing today in the place of Chairwoman Marge Roukema who is unable to be here today. However, we will insert her opening statement into the record and look forward to her continued leadership on housing issues.

During the first session, the Housing Subcommittee conducted a series of seven hearings to identify the contemporary housing issues facing this Nation. As a result of those hearings I expect to work with Chairwoman Roukema to introduce an omnibus housing bill designed to address many of these housing issues.

During those hearings last session it was evident that housing was not a Republican or a Democratic issue, in fact, there were as many Members of both parties actively engaged in our hearings. Through the hearings we understood the growing housing affordability and availability crisis confronting this Nation, particularly in high-cost areas.

While we may have various opinions on how to address housing problems, it is clear that we all agree that we can do a better job. The housing budget the President proposes, I believe, is a good start. You in the Administration are to be commended for crafting a housing budget that makes homeownership housing affordability for all Americans a priority.

Certainly not everyone will agree with the funding levels and program changes outlined in this budget, but we can agree on the goals of increasing homeownership for all and providing affordable housing to more Americans.

Our country is obviously fighting two battles; one against terrorism, and the other to overcome a slow weakening economy. In the midst of all the negative economic news over the last year, the housing market has been one of the few bright spots. Housing posted its best year in history last year. There is no doubt that housing can be a significant catalyst on the road to economic recovery.

The budget contains a number of provisions designed to create opportunities for homeownership, revitalize communities and to create incentives to build new, affordable housing.

I know I speak for Chairwoman Roukema and others on the subcommittee when I say that we are anxious to work with you, to enact initiatives that will expand affordable housing to meet the needs of low- and moderate-income Americans.

For example, the budget provides for an increase in 34,000 new incremental rental subsidy vouchers. This is great. However, we should ensure that the vouchers can be utilized and that hard-to-house families can find shelter. The budget provides for a threefold increase in funding for the Self-Help Homeownership Opportunity Program or SHOP. A perfect example of leveraging private and non-profit resources with limited Government funds to create homeownership opportunities.

I am particularly interested in the President's American Dream Downpayment Fund which will provide an additional \$200 million in funding for downpayment assistance to first-time, low-income home buyers. Coupled with that assistance, the Administration is proposing that Section 8 funds be used to assist low-income families moving into homeownership.

We know that homeownership strengthens communities and these initiatives will begin that process.

This HUD 2003 budget represents a 7 percent increase, however, Mr. Secretary, I would like to measure housing policy success not by mere increases in budget authority, but by the success stories we can document at the end of this term.

I am concerned that rental housing vouchers are underutilized in both high-cost and average rental markets. We should provide those local administrators with the flexibility necessary to achieve higher utilization levels.

I am concerned that the Department is unable to reimburse non-profit organizations for technical assistance provided and authorized by law. We can do better to efficiently manage our housing programs.

As you may know, Mr. Secretary, I have a strong interest in promoting faith-based organizations because of the tremendous success stories and records that they have in the area of assisting very difficult and challenging populations. In that regard, I applaud the Administration's acknowledgement that HUD will have to comprehensively reform its rules and regulations to establish a level playing field for faith-based and community organizations that seek to partner with the Federal Government.

I look forward to working to eliminate those regulations and handbook policies that preclude what I believe could be a great relationship.

Mr. Secretary, this Administration has a great opportunity to turn around this agency and to lead the way to an innovative housing policy that understands the value of partnering with the public sector and our local and State governments. Your good will, integrity, and willingness to work with Congress, as well as your great background in the housing area is appreciated, and I am sure will move us to higher homeownership and rental opportunities.

At this time I would yield to our Ranking Member, Mr. Barney Frank for his opening statement.

[The prepared statement of Hon. Mark Green can be found on page 34 in the appendix.]

Mr. FRANK. Mr. Chairman, I'll yield the first 4 minutes to Mr. LaFalce.

Mr. LAFALCE. I thank the gentleman very much.

Secretary Martinez, it's great to see you.

First of all I want to express publicly what a delight it has been to work with you and so many of your assistants, Mr. Bernardi, Mr. Weicher, and so forth. It's been a great working relationship and I'm appreciative for it. I was about to say, there could be certain improvements in this area, and certain areas. I understand Senator Sarbanes mentioned difficulties in getting responses. Actually, my staff tells me that sometimes we could receive phone calls from Congressional Affairs a bit more quickly just giving us a status update.

Secretary MARTINEZ. We're going to work on it.

Mr. LAFALCE. I am sure that will improve after today. Yes, good; good.

Look, I'm not going to go into the specifics of this budget, I know that Mr. Frank will in great, great detail as the Ranking Member. But in short, and I don't think this is your fault, I think this is OMB's fault, it's inadequate. It's inadequate from this year's perspective, but it's inadequate from a historical perspective.

And I just want to give you a little bit of a historical perspective before you came here. You know, going back to 1994 and 1995 when we had the revolution. And things have changed. We don't have the same anti-government rhetoric. We don't have people calling for the abolition of HUD today. But they were then. And upon taking control of Congress, Speaker Gingrich led the effort to slash the HUD budget by 25 percent. It was a cut of over \$6 billion. And so when we measure today's budget, we just can't measure it against last year's and say we're treading water. We have to measure it against where we were and what we experienced. And that was that huge cut. And we've never caught up. We are still down and we are still down significantly.

We were not spending too much on the homeless in those days. We were not spending too much on urban and rural housing in those days. Not to say we couldn't be spending it better. We could have spent it better then and we can spend it better today. We've got to do that. And that's one of the things I'm working with you on; trying to get some evaluation of how effectively we're spending

our money so that we could do it better in the future, and I understand that.

But compared to the levels approved in the fiscal 1995 spending bill, funding for Section 202 is down 50 percent in real terms. And funding for Section 811, disabled housing, is down 44 percent. And public housing is taking a big hit. Over the last 8 years, funding for public housing is down 31 percent in real terms. And I'll take you to any of the housing units in my Congressional district, whether it's Buffalo, or Niagara Falls, or Lockport, and we need that money desperately.

And the money we're getting does not say we couldn't spend it better and more wisely to accomplish our goals, to be sure. We need to talk about that. We need to talk about how we mesh public housing with the concept of integration so that we don't have segregated enclaves. You know, I mean, that's something that I want to work on with you.

The CDBG and homeless programs are down 15 percent in real terms from that time period, 1994-1995. So I appreciate the job that you have done in trying to juggle priorities and use the dollars that you have as effectively as you can. I want to work with you on that in the future. But I want to get—you know, if we want to have a good economic stimulus bill, boy, there's no better way to provide an economic stimulus to our economy, you know, the ripple effect of money spent and housing and community development and the good that it has accomplished—not for a day, but for permanently—is fantastic.

Mr. FRANK. Your time is up.

Mr. LAFALCE. I yield back the balance of my time.

Mr. FRANK. I thank the gentleman. I will take the rest of it to say that the gentleman from New York is absolutely correct about the inadequacy of the budget. In some areas of the economy, it's easy for people to say that as we enjoy prosperity—even if we're in a temporary recession—but this economy remains a very strong one, and we've had great prosperity and will have again. And prosperity does take care of a lot of things. It's the best anti-welfare program. It deals with unemployment, obviously, by definition. But given the unevenness of prosperity, and the nature of our society, prosperity in some ways exacerbates the housing crisis for those who are most disadvantaged. Because in those urban areas where people are not fully mobile, where people don't have the job opportunities to let them move across the country, where people are tied to a great extent to a local job market in the near term, the prosperity we have had in area after area has driven up housing prices and left a significant segment of the working population unable to afford decent housing.

So we have to do more rather than less. As prosperity creates more resources for the society, we ought to be using some of those resources to alleviate a housing crisis that is made worse rather than better. I know there is this popular saying that the rising tide gets all boats. But we're talking about the people who can't afford a boat. And if you can't afford a boat, the rising tide goes up your nose.

The fact is that we have people who are disadvantaged by prosperity, not advantaged.



That's particularly relevant, Mr. Secretary, because homeownership is a very good thing and I want us to encourage it. It is a grave error to make that the central focus of housing policy from the standpoint of the Government. Of course, we do have a significant aid to homeownership in the tax code. The ownership of housing is very much advantaged by the tax code. You get a significant advantage there.

There was an article by Ken Harney in *The Washington Post* documenting to what extent that exists. And I am in favor of trying to help lower income people get the advantages of homeownership. Although, as we should note, if you are taking the standard deduction, the tax advantages of homeownership are not nearly so great for you. But almost by definition, the large majority of poor people are going to need rental housing. And we will never alleviate the terrible housing crisis that affects so many people in this country if we do not do a much better job of building decent, affordable rental housing.

It's true that 40 and 50 years ago, this society built rental housing for the poor in the public housing area in very anti-social ways. But we ought to be very clear, the poor people never asked that we house them by building large sterile concrete towers with no services. That wasn't their idea. That was society's decision that that was the cheapest way to handle it. We've learned from that. We haven't built those kind of bad buildings. We've torn some of them down. We know how to build better rental housing.

And I finally have to say, Mr. Secretary, I see a disconnect between the hearings that were held all last year. This subcommittee had hearings and the witnesses were overwhelmingly chosen by the Majority. And with one or two exceptions, the witnesses that were chosen both by the Majority and by the Minority said, "You need to get back in the business of producing rental housing."

So homeownership is a useful thing and I want to work with it. But until we begin to take some of the resources of this very wealthy country and dedicate them to adequate production of rental housing as part of an overall mix, we're going to continue to condemn hardworking people to homelessness in some cases, because there are working people who can't afford anyplace at all, and even more inadequate housing and a situation where they have to pay far too much of their income for the housing they have.

And, again, we ought to be clear, as has been made clear by various studies recently, we are talking about people who work hard and make, \$20-, \$25-, \$30,000, and even more in some municipalities, people who do basic essential services and cannot afford housing and will not be able to house themselves and their families decently at a reasonable price until we get back in the business of improving the stock of rental housing.

Chairman GREEN. Members are notified, we will likely have a vote in the next half hour. Under the rules of this subcommittee, opening statements have been allocated 8 minutes for each side. That time has been used up. So I would invite the rest of the Members to submit opening statements for the record.

And with that, we will turn to and formally welcome our guest. Secretary Martinez, welcome. And we look forward to your testimony.

**STATEMENT OF HON. MEL MARTINEZ, SECRETARY, U.S.  
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Secretary MARTINEZ. Thank you, Vice Chairman Green and Ranking Member Frank and distinguished Members of the subcommittee. It's a pleasure to be back with you and talk about the 2003 Budget for the Department of Housing and Urban Development.

The \$31.5 billion HUD budget represents a funding level increase of 7 percent over fiscal year 2002. By helping Americans reach the dream of homeownership, ensuring affordable housing opportunities for those who rent, strengthening and renewing communities, and preserving a safety net for the most vulnerable, this budget will enable HUD to make a tremendous difference in the lives of millions of Americans.

The housing market in 2001 was extremely vigorous, and we entered the new year with homeownership at a record high. Because we know that homeownership gives families a stake in their communities and creates wealth, the HUD budget makes owning a home a viable option for even more Americans. In his State of the Union Address, President Bush acknowledged our commitment to expanding homeownership, especially among minorities.

As a first step, we have quadrupled the American Dream Downpayment Fund, to \$200 million. This Presidential initiative will help an estimated 40,000 first-time homebuyers overcome the high down payment and closing costs that are significant obstacles to homeownership.

A tax credit for developers of single-family affordable housing will promote homeownership opportunities among low-income households by supporting the rehabilitation or new construction of homes in low-income urban and rural neighborhoods.

We are tripling funding for the Self-Help Homeownership Opportunity Program—SHOP—to \$65 million, as committed to by the President last spring. That, and a lot of sweat equity, will make possible the construction of an additional 3,800 homes for disadvantaged Americans. SHOP is an excellent example of Government maximizing its resources by working with private-sector partners like Habitat for Humanity.

Another exciting homeownership initiative targeted at low-income families will allow them to put up to a year's worth of their Section 8 rental voucher assistance toward a home down payment. And, because we consider it an invaluable tool for prospective homebuyers and renters, we have proposed making housing counseling a separate program. The increase in sub-prime lending has made financial literacy more important than ever; armed with the facts, a consumer is far less likely to be victimized by predatory lending. We are funding the counseling program at \$35 million, which represents a \$15 million increase over the previous fiscal year.

While we consider homeownership to be an important goal, we recognize that it is not an option for everyone; therefore, our budget preserves HUD's commitment to expanding the availability of affordable housing for the millions of Americans who rent their homes.

The Section 8 tenant-based program today assists nearly two million families; our budget provides an additional 34,000 housing vouchers. The budget also dedicates \$16.9 billion to protect current residents by renewing all expiring Section 8 contracts.

To encourage the production of moderate-income rental housing in underserved areas, we plan to reduce the mortgage insurance premium for Federal Housing Administration multifamily insurance.

Three times over the last 8 years, HUD has been forced to shut down our multifamily mortgage insurance programs, because of lack of credit subsidy. Last year, the shutdown stopped the construction of some 30,000 rental units throughout the country and clouded developers in uncertainty.

We made a commitment at HUD to a comprehensive review of the credit subsidy program. We examined the statistical techniques that were used to analyze loan performance. We thoroughly updated and refined FHA's data and incorporated the major tax law changes in the 1980s that affected the profitability of multifamily housing. Through our review, we were able to lower premiums, create a self-sustaining program, provide the industry with stable financing at a much lower cost, and provide thousands of new opportunities for rental housing across the country.

In fact, the program made firm commitments to insure \$1.25 billion worth of new rental housing in just the first 4 months of the fiscal year. Reducing the premiums in fiscal year 2003 will lower the cost of building over 50,000 affordable rental apartments each year.

The 2003 budget gives HUD new resources to further our mission of supporting the Nation's most vulnerable. This includes low-income families, homeless men and women, the elderly, individuals with HIV/AIDS, victims of predatory lending practices, and families living in housing contaminated by lead-based paint.

Let me highlight just a few of our proposals.

To better coordinate the work of the many Federal agencies that reach out and provide a continuum of care to homeless men, women, and families, the budget calls for doubling HUD's funding for the newly reactivated Interagency Council on the Homeless. Additionally, converting three competitive homeless assistance programs into a consolidated grant will eliminate the workload and expense of administering three separate programs.

But, more importantly, it will give local jurisdictions new discretion in how those dollars are spent, while at the same time expediting the payout rate to the recipients by at least a third.

HUD's Lead Hazard Control program is the central element of the President's effort to eradicate childhood lead poisoning in 10 years or less. The HUD budget will fund the program at \$126 million, a substantial increase over the previous year.

The budget also proposes spending \$251 million under HUD's Section 811 program to improve access to affordable housing for persons with disabilities. And many of the additional 34,000 Section 8 vouchers will aid non-elderly, disabled individuals.

In addition to addressing the Nation's critical housing needs, programs such as the HOME Investment Partnerships Program and the Community Development Block Grant program stimulate eco-

conomic development and job growth. Combined, these two programs will distribute an additional \$200 million in formula funding to State and local governments. We have proposed changing the distribution of CDBG formula funds by reducing the size of grants going to the wealthiest communities. This will help bring dollars into those areas where they can do the most good.

We are excited about a brand-new concept to address the large backlog of repair and modernization projects in public housing. The Public Housing Reinvestment Initiative represents a new way to leverage the value of public housing by allowing public housing authorities to borrow funds to make needed capital improvements. This project unlocks the value of public housing assets by allowing PHAs to convert public housing units to project-based vouchers. The PHAs can obtain loans by borrowing against individual properties, similar to private-sector real estate financing.

Innovative thinking like this represents a departure from the way things were done so often in the past, but being effective does not have to mean spending more money. Government works best when Government serves as steward and facilitator and measures success through results. By facilitating the involvement of new local partners, the Public Housing Reinvestment Initiative will breathe new life into public housing communities.

I am proud of our budget and the way it reflects HUD's renewed commitment to efficiency, accountability, and the principles of excellence expressed through the President's management scorecard. When Government spends efficiently, the funds go much further, we reach more citizens, and we help to change more lives.

The people of HUD know that the American Dream is not some unattainable goal, because we see it achieved every day, so often by families who never imagined owning their own home or reaching economic self-sufficiency. I am confident that through our budget, and the continued commitment of President Bush, HUD will be better able to offer citizens the tools that they can put to work in improving their lives, and strengthening their communities and their country.

I would like to thank each of you, the Members of this subcommittee, for your support in our efforts, and for our working partnership as we seek to go forward on behalf of the American people. Thank you very much, Mr. Vice Chairman.

[The prepared statement of Hon. Mel Martinez can be found on page 52 in the appendix.]

Chairman GREEN. Thank you, Mr. Secretary for your testimony.

In the budget, you proposed decoupling the Brownfields program from the Section 108 Loan Guarantee program to attract more participants. Can you explain how that works and why that's necessary in your view?

Secretary MARTINEZ. The BEDI, Brownfields Economic Development and Initiative program, is a good financing tool along with the Section 108 program for addressing the lack of investment in urban areas resulting from real or perceived environmental contamination. So the reduction in the 108 funding level will not affect the ability of communities to leverage the BEDI funding, because it is anticipated that more communities may apply for BEDI grants

now that the Section 108 guarantees are not required with a pledge of their CDBG funds as collateral.

So, in other words, what we're doing is opening up this way of financing urban redevelopment by making it more flexible and more appealing to the communities. The BEDI program has been tremendously underutilized. So our hope is that by doing this, we will enhance this program and encourage more participation.

Chairman GREEN. Obviously, with much of the budget it isn't so much the monies that are allocated, but how efficiently they get spent and utilized.

Secretary MARTINEZ. The coupling with the 108 made it undesirable for communities. They didn't want to pledge their CDBG funds. So this way we're breaking it up.

Chairman GREEN. And hoping that those dollars will actually get utilized?

Secretary MARTINEZ. Exactly.

Chairman GREEN. Switching gears, but on the subject of effective utilization of dollars, the report that the Administration produced some months ago called the "Unlevel Playing Field" identified a number of regulations within HUD that the report believes impeded the ability of faith-based organizations to access and utilize some of the HUD grant programs, and particularly in the HOME VI and CDBG programs, disabled and elderly housing.

Could you address what efforts the department is planning to try to break down some of those restrictions?

Secretary MARTINEZ. Well, the President, in his Executive Order on the faith-based initiative, which is something that we have embraced wholeheartedly at HUD, asked us to do a survey of impediments. And what we found was a very uneven playing field. We found that there were very inconsistent requirements of agencies and we also found that the amount of paperwork and administrative red tape they had to go through was really quite discouraging, particularly to small faith-based charitable organizations who found it difficult to wade their way through the bureaucracy.

We are now in the process of developing amended regulations. So we will clean this up, level the playing field, create a set of rules that are standard, that are easy to understand and that are evenly applied so that more and more opportunities will be made available to community-based and faith-based organizations to partner in our HUD programs. We think they can have a very transforming effect and impact on our communities.

You know, when we're talking about \$15 million new dollars for a total of \$35 million in homeownership education and assistance, teaching families how to make themselves homeowners, how to bring themselves out of non-ownership and into ownership, this is an area where I think faith-based organizations in our inner cities could have a tremendous impact in working with people.

Chairman GREEN. I know you personally have had a long relationship with faith-based organizations back in your home State, so I know it's a priority of yours.

One of the areas that I am most concerned about right now in the area of housing policy is what is being done to expand the stock of new, affordable housing? And one of the ideas that's floating around is the creation of some kind of housing impact statement.

Some sort of mechanism by which agencies like HUD would be directed to perform regulatory reviews to examine how regulations may be impacting the cost and availability of affordable housing. And I was wondering your thoughts on such a proposal, whether you would support that or think it's a good idea?

Secretary MARTINEZ. I think it's a terrific idea. And I think that, frankly, a lot of it is also at the local level. I think it's amazing how much Government has imposed upon the cost of housing by regulations and by different requirements that, you know, sometimes have been rooted in good intentions, but not always in good results. And so I believe it would be very, very helpful to engage in that kind of a review.

Many years ago, the mayor of the City of Orlando, my home town, asked me to head an affordable housing task force and it was incredible the kinds of things we were able to find in regulations that no thought had been given to the impact that they would have on the cost of housing. So I think much can be done to alleviate those kinds of problems.

And, frankly, I also believe that RESPA reform, which we're engaged in, the Real Estate Settlement and Procedures Act, this is a terribly important opportunity for more people to make housing more affordable for purchasers. The fact is that for many people, a lot of cost is added to the cost of buying a home by the Real Estate Settlement Act and the requirements that it has. So thinning that out, cleaning that out, making it more transparent, these are all the things that can help make housing more affordable.

Chairman GREEN. Well, Mr. Secretary, I share your enthusiasm and look forward to working with you.

The Ranking Member, Representative Frank, is recognized for 5 minutes.

Mr. FRANK. Mr. Secretary, I have to say at the beginning that communication has been a problem. At the last hearing, which I think was April, Members submitted questions, the answers came a couple of weeks ago, to those questions. And, frankly, they weren't much in the way of answers. And we've had similar problems. I know it takes a while, but the responses should be better. You know, we're supposed to learn from our mistakes.

Secretary MARTINEZ. May I just briefly say, Senator, I appreciate the comment, and I will assure you that we will do better.

Mr. FRANK. Maybe you sent them over to the Senate, maybe that was the problem.

Secretary MARTINEZ. Well, I'm not sure they're any happier.

Mr. FRANK. I know you said "Senator" I thought maybe you sent the answers to the wrong place.

Secretary MARTINEZ. I'm sorry. You know, I was down here this morning, so I'm sorry. I was trying to give you a promotion, but anyway—or demotion, whichever way, I'm not sure.

Mr. FRANK. Mr. Secretary, from your department I'll take motion whether it's de or pro.

The next question I have really has to do with a mistake. And we have to learn from our mistakes and I have to say, your department made a very serious, very time consuming, very disturbing mistake. I understand that you said this morning, my Assistant Ms. Gibbs heard you testify that you're going to be able to rectify

it. But we have to learn how it happened and how we can prevent it.

Obviously, I'm talking about the grants known as ITAG and OTAG. The agencies that were set up to help, you know, and we all pay great lip service to an ocean of community involvement, tenant involvement, and so forth. And these were—we're talking about a small amount of money, \$11 million in this budget for next year. We're talking about a million-and-a-half that was owed, and it's still owed, unfortunately, to help community groups. And we were told last year by your department that there was a violation of the Antideficiency Act and these community groups who are scraping along on very low dollars—these are very low budget operations, trying to employ very lower income people in many cases—that they were not going to get the money because there had been some problem that the Antideficiency Act had been violated.

We put some language in the budget in the Defense Appropriations Bill, because that was the last train out of the station and directed the department to clean it up and to have a report by January 15th. As of yesterday we were still being told that the Department couldn't pay and didn't even know how much was owed.

Now, something appeared magically to somebody during the night, and I am all happy about that, because this morning you announced, contrary to what we had been told yesterday afternoon, that this was going to be resolved. But how did this happen? I mean, apparently now the ruling is that there was no violation. Well, what made everybody think there was a violation and the mistaken notion that there was a violation caused great havoc for a lot of low-income groups.

Secretary MARTINEZ. Well, the first thing that I need to say is that I am sorry about that and it is a tragic situation and it is terrible to people who had nothing to do with it. I mean, they are blameless. These are victims of a set of circumstances not of their own making. And I understand that these are people who are working on margins. So it is unfortunate and I really do regret it.

I have to tell you that there is a significant problem in the way that—and you're talking about how we fix it for the future as well, which I think is very important. OMHAR, which is the agency in charge of administering these grant programs, was not a part of HUD, was of HUD, but not directly under HUD. We have now brought OMHAR under HUD.

Mr. FRANK. And we voted for that.

Secretary MARTINEZ. And you did and it was a great thing to do. And I don't think you'll see this kind of situation in the future.

Mr. FRANK. Well, why did someone decide until yesterday that there was a violation of the Antideficiency Act to the great discomfort and damage of these groups?

Secretary MARTINEZ. Let me say, we thought there was a violation of the Antideficiency Act.

Mr. FRANK. Who thought that?

Secretary MARTINEZ. Our office of CFO office.

Mr. FRANK. And at what point did they unthink it?

Secretary MARTINEZ. Well, they had been unthinking it when they asked the IG to conduct an investigation and the IG's investigation went into all of these records which we didn't have, be-

cause OMHAR had them. We had to actually go to some other grantees to get the records and now in reviewing all of the records, it appears that there was not a violation.

Mr. FRANK. Well, when did the IG tell you that?

Secretary MARTINEZ. The IG has, in the last couple of days, has concluded that that was the case. But let me say—let me finish.

Mr. FRANK. We were begging you before to do this and—because these people were held hostage while you were arbitrating this question.

Secretary MARTINEZ. Well, and I understand that. But there was no way not to compound what—

Mr. FRANK. Well, there was. There was this. But, because the Congress and the Defense Appropriation instructed you to pay them.

Secretary MARTINEZ. But—but—

Mr. FRANK. —waited—I mean, the IG somehow—

Secretary MARTINEZ. But, it has—

Mr. FRANK. Excuse me, but can I tell Senator Byrd that according to you, the IG outranks the Appropriations Committees?

Secretary MARTINEZ. No, sir. I think that would be—I don't want that said.

[Laughter.]

Mr. FRANK. But that's what you're telling me, Mr. Secretary.

Secretary MARTINEZ. My grandmother did have an outhouse, but I don't want to get into that today.

[Laughter.]

Secretary MARTINEZ. Anyway, no, here's the thing. Mr. Frank, here's the problem. We thought there was an Antideficiency Act violation. We had to stop payment in order not to compound the problem.

Mr. FRANK. Why didn't the December appropriations ever pay them the money regardless of the Antideficiency Act. Let's work that out among ourselves don't—and you've held these people up.

Secretary MARTINEZ. Two reasons why that has not happened. We, on the 12th of January, immediately after the signing of the bill, we asked OMB to allow us to disburse the funds. That authority has not come yet. In order to utilize those funds it typically takes 30 days and that is about the timeframe where we are now.

Mr. FRANK. This is the first I heard that it was OMB holding up. I wish you would have told us that.

Secretary MARTINEZ. Well, OMB might tell you that it was us holding it up. The bottom line is that the funds have not been available. We now have a way of paying it, even without utilizing the \$11 million, because the fact is that we—

Mr. FRANK. Well, can you pay them tomorrow? This afternoon?

Secretary MARTINEZ. On the 27th of February we are going to start making payments.

Mr. FRANK. Why the 27th?

Secretary MARTINEZ. Because between now and then we have to ascertain how much each of these groups is owed. And we have had to reconstruct records. I know this all sounds like a lot of bureaucratic gobbledygook. I know what it's like to be out in the field and have the need to make payroll. I mean, you know, I used to be a small businessman myself and I know that's a terrible problem. We



are doing the best we can. Good-meaning, well-meaning people have been working tirelessly to fix this problem.

Mr. FRANK. But I would have told you this, but it is these people were further victimized by an error, because someone at HUD found an Antideficiency Act violation that did not exist and it terribly disadvantaged these people and we just have to figure out a way not to have that happen again.

Secretary MARTINEZ. Understood.

Chairman GREEN. The gentleman's time is expired.

The Chair recognizes the gentleman from Ohio, Mr. Tiberi.

Mr. TIBERI. Thank you, Mr. Chairman. Thank you, Mr. Secretary for coming today.

This is kind of following on the lines of what Mr. Frank said. You may be aware that in central Ohio, in fact, Congresswoman Pryce and I sent a letter to the Chairman of the Full Committee expressing some concerns about OMHAR. And I would just like to give you an opportunity to—I think you were starting to answer the question and weren't able to finish with respect to where do you see this going?

Secretary MARTINEZ. Well, going forward in the future OMHAR is now a part of HUD and all of their financial transactions will be a part of the way HUD does business. Their grant administration will be a part of HUD. It will allow us to have access to the records that we did not have and had a problem getting access to. So in the future I really do believe that these problems will be alleviated.

HUD does not have a problem in knowing how it is funding out and how to administer grants. This has not been a typical situation that we have seen in other HUD programs. So I have great comfort that going forward that this is not something that is going to be repeated. It is, indeed, a terrible situation for the people involved and they are totally blameless in this. But sometimes these things happen.

The problem is, too, an Antideficiency Act violation is a darned serious piece of business. People go to jail for that. And when our office of General Counsel and others at HUD decided that there was a potential for such a violation, the prudent thing to do was to stop making more payments which would have compounded the problem. So it is unfortunate that now as it turns out there may have not been one. But I think you cannot fault HUD for using caution in a situation where I think caution was warranted.

Mr. TIBERI. Mr. Chairman, Mr. Secretary, what timeline should we give our constituents who are impacted by this as to what are they looking at?

Secretary MARTINEZ. We will be able to pay \$550,000 in outstanding obligations by the first week in March.

Mr. TIBERI. And final question, Mr. Chairman. Mr. Secretary, can we work with your office then rather than OMHAR in terms of finding out exactly what the payout would be?

Secretary MARTINEZ. Yes, sir. In this situation if you need to know a specific group, just call my office and we will make this a priority. And, you know, let me assure you that I have been involved in this in the last couple of days and I am going to stay in-

volved in it, because we need to get it to finality and get this taken care of.

Mr. TIBERI. Great. And just switching the subjects, Mr. Chairman, and Mr. Secretary, you mentioned RESPA and you are down-the-road on RESPA requirements. Can you give us a timeline on what your goal is to come out with recommendations?

Secretary MARTINEZ. My hope is sometime in 90 days or so we will be in a position to come out with some recommendations. We are seeking input from consumer groups, from the industry groups and from members as well so that we can come out with something that is as comprehensive as we can make it, and I believe quite revolutionary. You know, RESPA is an area where if Social Security is a third rail, this is a third rail of HUD. Nobody has wanted to touch it.

But from 1972 until now, an awful lot has changed in the financial world and the world of technology and everything else. And I think it's time that we take a good look at the amount of clarity that has not been available to people who are closing on a home and the amount of knowledge about what they're paying and why they're paying it. So I think it's time for a new day and I am really very aggressively pursuing that.

Mr. TIBERI. Thank you, Mr. Secretary. As a former realtor, I encourage you to continue to keep the consumer in mind with respect to disclosure as well.

Secretary MARTINEZ. Absolutely. That is the key, disclosure.

Mr. TIBERI. Thank you.

Secretary MARTINEZ. Transparency in the transaction really means disclosing all of the information so that the consumer can make informed choices.

Mr. TIBERI. I agree. Thank you.

Chairman GREEN. The Chair recognizes Ms. Lee for 5 minutes.

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

Hello, Mr. Secretary.

Secretary MARTINEZ. Yes, ma'am.

Ms. LEE. Let me ask you a couple of questions with regard to the funding for homeless initiatives. Now, your budget indicates that there are about, well, somewhere between 100,000 and 200,000 persons without a home for long periods of time, making chronic homelessness in the decade a top priority.

Let me just ask you about how that translates into your budget, because it's estimated that it will cost some \$95 million more in 2003 than last year in terms of funding for the Shelter Plus program grants, but yet your budget doesn't reflect any increase in that. And you indicated you're consolidating the programs and also funding the interagency task force.

Secretary MARTINEZ. Right.

Ms. LEE. But how does all of this translate to addressing the problems of chronic homelessness? HUD's budget, I guess, is what, \$1.1 billion? Is that what you are—

Secretary MARTINEZ. The total budget for homelessness is approximately that, \$1.1 billion.

Ms. LEE. OK.

Secretary MARTINEZ. But let me address the problem of Shelter Plus, because I think there is a little bit of a misunderstanding.

The Shelter Plus program was advance funded in the 2002 budget, so it means that the 2003 appropriations that we will make were funded in last year's budget. And we can keep all the current level of funding without a new appropriation in this 2003 budget. We will need to appropriate again in 2004, but the 2002 appropriations were appropriating for 2002 and 2003 fiscal years. So we will be in a position this year to fund all of the programs of the Shelter Plus program. They are fully covered in the 2002 Appropriations Act.

Ms. LEE. So what does that mean for this year? Then what was the amount from last year? What was that? How did that translate for the program?

Secretary MARTINEZ. What it will mean is that in the year 2004, we will need about \$190 million in order to fully fund, going forward, the Shelter Plus program. But that in this current budget year that we are considering today, there was no need to do additional funding because it had been taken care of in the 2002 fiscal year budget.

Ms. LEE. Then——

Secretary MARTINEZ. Does that answer your question?

Ms. LEE. Well, it does, but it doesn't in terms of the need that's there, given the need of addressing the 150,000, 200,000 chronic homeless population. Whatever that number was, was too low. I remember from last year and this year with the \$1.1 billion, what does that include? I mean, it is just homeless assistance programs. Are these grants to shelters?

Secretary MARTINEZ. We have supportive housing programs, Shelter Plus Care Program, the Section 8 Modernization Rehabilitation Program, and the Emergency Shelter Grants Program. So all of those are the HUD programs that address the needs of the homeless.

But what we are doing beyond that is by reactivating the Inter-agency Task Force, the Interagency Council on the Homeless, and doubling the funding for that. We now have an executive director that's coming on board, we will now bring the resources of all the agencies of the Federal Government to bear on this problem. HHS has an awful lot that they can do with homeless populations, particularly the chronically homeless who often have additional health issues that are afflicting them which is sometimes the cause of their homelessness and we need to make sure that these people, these populations are accessing all that is available to them through these other agencies which today we are not necessarily always doing.

Ms. LEE. So in an ideal world, Mr. Secretary, what do you think we need? Because we all, including yourself, have been struggling to try to really deal with the problems of the chronic homelessness. What do you think the funding level should be that would begin to provide not only shelter, but transitional housing, the supportive services, all of those kinds of efforts to help people move from homelessness into housing?

Secretary MARTINEZ. I believe that the programs that we have currently available are adequate and helpful to the population that we are dealing with. The problem is not that they are not accessing the opportunities for help. The problem is that we have a segment

of the population particularly that is chronically homeless and we need to find a way that we can get better treatment options to those people so we can move them out of homelessness.

So it isn't necessarily, in my view, necessarily a funding issue. It's about how we administer these programs and how we get all of the agencies of the departments of the Federal Government working together to try to address this problem.

Ms. LEE. So you think that for drug treatment, for substance abuse, for children who are homeless, for—

Secretary MARTINEZ. Well, drug treatment and substance abuse are things that are covered under other parts of the budget that are not necessarily under HUD, although we do some things like that in our continuum of care programs. But we do need to address these problems in a comprehensive way. And I think that this Interagency Council is going to be a tremendous resource for us in doing so. So I look forward to continuing the dialogue, because I know you care about the issue. I do too and our agency is tasked with dealing with it. So we intend to forcefully pursue it and this interagency task force is going to help us get it done.

Ms. LEE. Thank you, Mr. Secretary. Thank you, Mr. Chairman. Chairman GREEN. Thank you.

The Chair recognizes Mr. Miller of California for 5 minutes.

Mr. MILLER. Thank you, Mr. Chairman. Mr. Secretary, it is good to have you here today.

Secretary MARTINEZ. Thank you, sir.

Mr. MILLER. You have been a pleasure to work with over the last year on Brownfields as it applies to HUD and I believe the Chairman is going to mark that bill up possibly in March. And I am looking forward to that being implemented. I am also glad to see in the budget that HUD received a 7 percent increase in funding. I think that's long overdue.

I think it's impossible though to look at one sector of the housing market and completely understand the housing problem we are facing in this country. We talk about the chronically homeless. But there's a new generation of homeless that's developing also and those are individuals who can't afford to live within the community in which they work. We are worried about air quality, we're worried about transportation, but there are so many people who have good jobs who just can't afford to live in the community or the county within which they work.

In Orange County the median home price is \$338,500, which means you have to have an income of about \$112,833 to qualify for a home. And the average rental price is over \$1,000. And last year we had Los Angeles County in here, which is probably the largest housing market in the Nation. They said that their affordable housing rental units had a vacancy factor of 3 percent, which means they are totally occupied, because 3 percent of all the units are always under refurbishing in some form.

But, in order to provide low-income housing for those at the lowest levels, you have to have an affordable move-up market. You can't have one without having the other, because people are not going to move out of the low-income housing into the next level if there's no place for them to go. Yet, if you look at the average sales price of a home in this Nation, 30 percent of that sales price is di-

rectly attributed to Government; 30 percent alone. And that's not indirect cost. If you figure the Endangered Species Act on top of that.

I know Congressman Baca, from San Bernadino County, who is in the district adjacent to mine, there's a project called Liddell Creek that is next to a wash. And this entire project is zoned for quarry. And there happens to be a San Bernadino kangaroo rat that lives in this wash. Now, you have to understand, the kangaroo rat is endangered, because the kangaroo rat only lives in washes and every time you have a rain storm, they get washed out and they die.

And yet, every study about wildlife and every biologist has been out there said, they will never live uphill from that wash, they will only live in the wash, and there's a project on 335 acres that they want to build affordable housing. Because of that rat, they spent 5 years trying to get approvals. Now that the county has approved them, they're being sued by the Friends of the Sage and other environmental groups to make sure they can't build affordable housing, because they said it's zoned for a quarry, it should be used for a quarry.

And we all know what happens to a quarry for sand and gravel, they dig a hole and destroy the entire environment. But, I mean, it's just an attempt to stop providing housing. Where do you think we have to go in this Nation to deal with, yes, the people who are homeless, but also to deal with the marketplace that moves up so the rest of society can afford to live in this Nation?

Secretary MARTINEZ. Well, I think you speak of the problem, again, that's at the heart of the issue which is how do we get this continuum of people allowing them to move out of homelessness into affordable rental, then from rental into perhaps homeownership. And this is something that is a very difficult problem.

Orange County, Florida, where I come from, has similar problems to what you speak of. It's not nearly at the same price levels, but they exist. People who have an ordinary job working in a service industry find it difficult to find an affordable place to rent.

The issue of Government adding costs to the cost of housing is a very serious problem. That can only be addressed though at the State and local level, for the most part. I think the Federal Government may play a role in that, but it's a very, very small role compared to the local and State roles in these types of regulations.

The things you're describing make me realize how happy I am that I'm not in local government anymore, you know, because it is a difficult set of issues to deal with.

The problem is that we have got to find ways in which we can continue to erode the regulatory costs while at the same time finding more innovative ways of creating housing opportunities. I mean, I know that there would be some members who would just want to have a Federal program worth billions and billions of dollars for housing production. But that's not really answering the problem either.

Mr. MILLER. See, I support the concept, and I talked to Mr. Frank about it repeatedly in the Section 8 vouchers. But then we come back and say there's a huge shortage of supply, so we need

to increase Section 8 vouchers, but all we're doing is increasing demand for a product that is in shortage.

So, no matter how high you increase Section 8 vouchers, there's still no place to spend them. And yet we don't look at the concept of maybe we take a Section 8 voucher and allow that to be applicable to purchasing a home.

And then maybe in 5 or 6 years, those people on Section 8 vouchers won't need Section 8 vouchers, because they've built up equity in the homes. But this housing crisis we're facing, and it's a crisis, is so complex we sit here in Congress and we come up with some good ideas on how to try to deal with it, but unless we have some mandate that says, things must be done, there's nothing in the world we're going to do to solve the crisis that's confronting us.

Could you please try to address that?

Secretary MARTINEZ. I'm not sure that I can provide you with a set of scripted answers to the problem you pose. I think it's a very serious problem.

Some of the things we're doing are through our FHA program. We are finding that in reassessing how we did the premium calculation we found that we now have a tremendous interest in this program and that it is being utilized. In our FHA multifamily program, we increased the loan limit by 25 percent. It is now being utilized in high-priced communities like those you mentioned.

So this is going to allow for—I mean, we're seeing applications coming in from communities that we hadn't seen in many, many years. So I'm hoping that's going to have an effect.

We may even raise that FHA limit even higher. The bottom line is that in doing so we've been able to create some opportunities.

That's not a total answer, but it is a partial answer.

Mr. MILLER. Well, in closing, I want to thank you. Your office has been extremely cooperative and responsive to issues we believed important in Brownfields and important to people who need housing.

Secretary MARTINEZ. Thank you.

Mr. MILLER. And I want to commend you for that.

Secretary MARTINEZ. Thank you.

Chairman GREEN. OK. We have a vote on. We're going to adjourn temporarily for the vote—a recess.

Mr. Secretary, you can stick around, I hope?

Secretary MARTINEZ. Mr. Vice Chairman, I have a commitment with the President that I have to be at 4:00 and that's my only constraint. Until then, I'm yours.

Ms. SCHAKOWSKY. Mr. Chairman.

Chairman GREEN. We have but one vote so we'll come back immediately after the vote and we'll reconvene.

Secretary MARTINEZ. I'll be here.

Chairman GREEN. So we stand in recess until the vote is conducted. Thank you.

Secretary MARTINEZ. Thank you.

[Recess.]

Chairman GREEN. If everyone will take their seats, we will get back started again given the sensitivity to the Secretary's schedule.

At this time I would recognize Ms. Stephanie Jones for questions she may have.

Mrs. JONES. Thank you, Mr. Chairman.

Chairman GREEN. Good afternoon.

Mrs. JONES. Mr. Secretary, how are you?

Secretary MARTINEZ. Good, thank you.

Mrs. JONES. Good. You know what? This is a grand opportunity. I get to play Ranking Member on a subcommittee. So I'm really having a good time sitting here in Barney Frank's seat. Ignore his name.

Secretary MARTINEZ. I won't call you Mr. Frank.

Mrs. JONES. Thank you.

[Laughter.]

Mrs. JONES. I want to pick up on some of the questioning that has already been asked of you. In my State, the great State of Ohio, with regard to the OTAG programs, I've heard from many, many organizations and I promised them I would go on record with regard to their complaints, though I will accept your representation that they will be paid by February 27th or March 1st. I'm going to send them letters today, in fact, so they'll be real happy.

But the Cleveland Tenants Organization was a recipient and their money was used to send local tenants to training opportunities. They have approximately \$20,000 coming back to their organization.

The Volunteers of American in Cincinnati was the recipient of \$70,000 for a pre-development grant for acquisition and preservation of the Parkway Towers, a 100-unit elderly and disabled building in Columbus. Mount Vernon Plaza, they were using their dollars and they represent that they're out \$20,000.

Then there's an organization called COHIO, as the OTAG recipient for the State, they've been forced to lay off their part-time staffers, suspend their contract with the Cleveland Tenant's Organization, and delay filing three Vista positions in Dayton, Columbus, and Cincinnati. And they have not been reimbursed approximately \$70,000. So it's really coming down to the rubber meets the road and I would appreciate you giving immediate attention to those particular programs.

Secretary MARTINEZ. Ms. Jones, you're absolutely right and I understand the depth of the problem. We, as I stated earlier, are in the process of getting payments out and we hope this is something that will never be repeated.

Mrs. JONES. Because we only have 5 minutes, I have to rush through all my questioning. Let me ask you, what do you anticipate being the composition of this interagency council on the homeless and who will actually have, if we want to call and say, OK, you're responsible for this, who is that person?

Secretary MARTINEZ. There will be an executive director hired who begins the job on the first day of March or right around the first of March. There is statutory language that created the council and the members are prescribed by that, but it is the secretaries of HUD, VA, HHS, Labor—that's the composition of it and there will be—

Mrs. JONES. Well, that poor executive director has many bosses, huh?

Secretary MARTINEZ. Well, his ultimate boss is really the President. It's actually out of the White House, but that's the composition of it and that's how it will work.

Mrs. JONES. Well, they've figured that out already. I'm kidding. Go ahead.

Secretary MARTINEZ. So that's who you would address. And the person will be housed at HUD. So you can direct your inquiries to HUD.

Mrs. JONES. Let me also go back to an issue that was raised with regard to, we're working with ownership wealth which is a program that the Congressional Black Caucus Housing Foundation is working on, but I want to voice my concern as well with regard to the whole issue of affordable rental housing. Can you tell me—and I lost the question that I really want to ask, Rodney, help me out real quick. With regard to the allocation of costs—tell me where real quick. That's what we get when we get a break. OK.

In spite of the recent loss of the portion of affordable housing stock and the demonstrated need for more affordable housing, don't you think that you could use additional funding for the production of affordable housing?

Secretary MARTINEZ. I believe that there are many ways to attack the problem. One of them would be to just provide additional funding through the Government. I don't think that is likely to happen. I think we need to look for a multiplicity of ways of doing it. One of the ways is increasing the multifamily loan limits of FHA. Another is the revising of the subsidy program at FHA which we've done. Both of which are having a very, very positive effect in the production of multifamily housing.

The Millennial Housing Commission, instituted by the Congress, has been studying the affordability problem for a year-and-a-half now and their report is going to be out in May, and I would look forward to what they have to say. It's been a bipartisan group of people.

Mrs. JONES. OK. I want to raise two more issues with you and maybe I won't get a chance to ask them both, but maybe I can get a response later, real quick.

Secretary MARTINEZ. Sure.

Chairman GREEN. You won't, but you can get one of them in probably.

Mrs. JONES. OK. Can I just raise two questions? I can get an answer back later. OK.

With regard to converting public housing units to project-based units, tell me what your position on whether private lenders are going to really be acceptable?

Second question is, it appears to me that in this colonias program that you're really just moving rural housing dollars by raising the colonias program and cutting rural housing dollars.

Chairman GREEN. Is this a question?

Mrs. JONES. No, but, yes. And I want to get an answer too.

Secretary MARTINEZ. Well, the quick answer to the first one is, in terms of what—I'm sorry, I've got the colonias in my head now. I forgot the first question. What did it have to do with?

Mrs. JONES. With regard to Section 8 and private lenders.



Secretary MARTINEZ. Oh. I do believe the private lenders will be interested in that. I think that is a viable market and I think that the research that HUD has done indicates that they will be interested in making loans to public housing authorities.

The second question is, the colonias are a very much neglected part of American life. These are people who live in the border States. And I believe that the very small amount of directed funding that we're going to apply to them in this budget, if it's the will of the Congress to enact it, will be a significant help to these people to community centers and other intermediary organizations that are working with these people to provide infrastructure assistance to help these folks.

Mrs. JONES. Thank you.

Chairman GREEN. Thank you.

The Chair recognizes Mr. Baker from Louisiana for 5 minutes.

Mr. BAKER. Thank you, Mr. Chairman.

First, I appreciate your courtesy in calling this hearing. And, Mr. Secretary, I do appreciate your appearance here today and want to compliment you on your effort and initiative to change the course of direction for the enterprise to provide more effective utilization of taxpayer dollars for the benefit of those in need of housing.

I really wanted to raise two issues, both of which are not new to you. We have had prior conversations, but on the subcommittee record, relative first to HANO, the Housing Authority of New Orleans, and my longstanding concerns about the disastrous conditions in which many low-income individuals find themselves within the city. The clear record of the authority being unable to meet the minimal standards for conduct in whatever scoring methodologies have been used and my interest in seeing the current administration be terminated and the creation of a judicial receivership to bring about the most independent manner for reconstruction of services within that city.

I understand that after careful review, the Administration did determine that an administrative receivership was the most appropriate way to proceed given the current body of law. However, I was surprised to learn that the city itself didn't file suit against the administrative receivership and is now demanding the implementation of a judicial receivership. My point being that the political difficulties over the many years to proceeding with real world improvements for the people who are trapped in the walls of that deteriorated housing may continue to be so trapped unless there is some immediate remedy to this crisis.

Since 1992, the Congress has appropriated in excess of \$800 million to the Housing Authority of New Orleans and I can honestly tell you, having walked the streets and talked to the individuals that the conditions for people living there today are at least no better, and perhaps worse, than they were before the \$800 million was provided. I think it's a tragedy, speaking from the State. I think the only housing authority in the Nation are in the purview of Congressional assistance is probably Puerto Rico which might be worse. And I think that would be a close call.

So I want to express my deep interest in assisting you and the Administration in whatever steps can be taken to get people in

safe, decent housing, within the next 12 to 15 months, if not sooner.

There have been kids born, grown up, and died fighting drug wars on the steps of this deplorable condition. And it's really intolerable that we as the Nation's largest slum landlord continue to fail in our ability to bring about safe housing conditions.

Second, and even more parochial of interest than HANO is the distribution of HOPE-VI grants across the Nation. Approximately 13 of the largest cities get almost half of all the funds made available, and not to get all 13 angry with me, I would suspect that on careful review we would find that the utilization of those dollars within those very large and enormous housing projects has not been particularly successful for the quality of life for people who reside in them.

And, in fact, it is the smaller, well-managed housing authorities across the country that do provide a measure of quality for elderly and handicapped particularly, but for all those who need it. And that smaller housing units, diversified into communities appears to be the way that gives the most benefit to the taxpayer dollar.

I am going to be very much interested in working with the Administration, I hope, in a revision of the HOME VI formula to ensure that well-run, well-managed, smaller housing authorities get access to the capital they need to provide the services that are increasingly obvious across many States of the Nation. Those are my two points, Mr. Chairman. I just wanted to put them on the record.

I have deep concerns and I hope we can see some progress on both fronts.

Thank you, Mr. Secretary.

Secretary MARTINEZ. Thank you, Mr. Baker. And if may just quickly respond, I share your concern. HANO, as you know, we've talked about it and I think that very, very soon we will get a ruling from the court on the wishes of the court on judicial or administrative. We're prepared to go either way. We think it will work either way. We just had a preference for administrative. We thought that we had an agreement from the City, but that apparently wasn't the case. The bottom line is, the living conditions for those people has got to get better, there are no two ways about that. And I appreciate your concern on that and look forward to working with you as we go forward to make those people's lives better, no question.

Chairman GREEN. Thank you.

Ms. Schakowsky is recognized for 5 minutes.

Ms. SCHAKOWSKY. Thank you, Mr. Secretary. I appreciate your being here. I just wanted to tell you that last week I had a very good meeting with Mr. Galvon who is the Director in the Chicago area and I look forward to working with him on the many issues that we face.

I want to associate myself with our Ranking Member's comments and with his opening comments, and particularly the question he was asking about the payment to non-profit organizations. I also wanted to associate myself with Mr. Baker's characterization of us. I had never really thought about that, as the largest slumlord. We have that situation in Chicago as well.

And as we try and address the problem of the Chicago Housing Authority, get rid of some of those bad buildings, we have an enor-

mous lack of affordable rental housing as a replacement and would really hope that we can effectively address that, mainly, I think by production, as does Mr. Frank.

A couple of questions that I wanted to ask. I want to be sure that I got you right, that I could tell Tenants United for Housing which was owed money has—actually will go out of business in a couple of months, if they don't get it—has laid off the majority of its staff already. So it's not true that they're stumbling along, most of them are crawling along, if at all, and have actually suffered enormously, because this money has not come. If they are scheduled to get it, they are going to get it by the beginning of March? I can call them this afternoon and tell them that?

Secretary MARTINEZ. That is correct.

Ms. SCHAKOWSKY. OK. Great.

I wanted to ask you about transitional housing. Over 100 Members of Congress are co-sponsors of a bill that I have that would allocate \$50 million to victims of domestic violence to provide transitional housing to them. Last time we actually authorized \$25 million, none of that money was ever appropriated; 75 Members of Congress in early January sent a letter to you and to the President, both sides of the aisle, bipartisan, asking that we put some of that money—that we put \$50 million into transitional housing.

You know, we're fighting terror around the world and we have so many people here at home who face terror every day in their homes because of domestic violence. It is not a lot to ask, I think, to begin, at least, to address the problem to say that we put some money into transitional housing, help these women and their children get their lives together and move on.

I want to know if this is or is not a priority for you if you can take another look at the budget and see if we can't find some room to address these women, preferably with the full \$50 million which I believe is a drop in the bucket for a critical issue facing us.

Secretary MARTINEZ. Well, we prepared the board that we thought was appropriate and I'm afraid that was not part of it. I do believe that there are—I know from my own local experience—a number of very effective programs at the local level that are run and that usually address these kinds of problems. I don't know that every problem that society faces cries for a Federal solution, necessarily.

So I guess what I'm saying to you is, no, that was not part of what we put into our budget and I'll be happy to discuss it further with you and see if there is some way that we can provide some assistance or find a way that it would be possible. But, you know, what I have learned in my experience is that many, many times these are very serious problems, but that often local government and not-for-profits work together at the local level to provide answers to some of these problems.

Ms. SCHAKOWSKY. Women are being turned away every single day at shelters, because there just is not enough room for all the women who are actually making the move to leave, plus the probably millions of others who would like to. I would appreciate the opportunity to talk to you. I think this does cry out for a Federal solution and I think the least—if we are going to worry about terror, then we ought to worry about terror. There are terrorists in

homes right now terrorizing women and their children and we should do something about that. I would like to talk to you more about that.

There are several housing developers in my district who have been involved in affordable housing who have told me that high exit taxes are the things that prevent them from selling their properties to affordable housing developers. And that if there were some relief for them from these high exit taxes that we might be able to see to prevent the loss of affordable units, I'm just wondering if you would support an initiative to provide tax relief for developers who sell their buildings to developers of affordable housing?

Secretary MARTINEZ. That's probably an issue emanating from the 1986 tax laws, and it is something that I don't believe HUD would have the authority to commit to do. I think it's something that the Department of the Treasury would probably have to address since it is a matter of tax law and not of something that HUD would have the authority to do in the way we currently are configured.

Ms. SCHAKOWSKY. I realize my time—but, if it would help to achieve your goals, maybe we could work together to try and move that idea along.

Secretary MARTINEZ. I would be happy to—absolutely. It would be my pleasure to talk to you further and learn more about it and maybe we could work together.

Ms. SCHAKOWSKY. Thank you.

Chairman GREEN. Mr. Capuano, I understand you're going to be shifting up here? Would you bring your nameplate with you?

Subcommittee Members know, we are following standard subcommittee practice and recognizing Members in order of their first appearance here. So, Mr. Capuano, it's your turn, 5 minutes for questions.

Mr. CAPUANO. Mr. Secretary, I give you all the credit for my recent promotion and I appreciate that.

Secretary MARTINEZ. Yes, sir.

Mr. CAPUANO. Mr. Secretary, I guess I have some questions, but I want to make it very clear, though I have some disagreements and I still have some serious policy differences, I want to commend you on what I think was a budget that was much better than I anticipated.

Oh, you want me to change that? They don't want me to be Mrs. Jones anymore. The staff doesn't mind.

So on some levels I don't like some of the things that are here, but on another level I really expected to really not like it and I want to commend you for what I expect was probably some difficult negotiations within the Administration and thank you.

Secretary MARTINEZ. But may I thank you for not being nearly as ugly as you thought I'd be.

[Laughter.]

Mr. CAPUANO. Well, OK.

I guess the questions I have really—there's a bunch of them, but I want to just talk about three of them, the empowerment zones, the CDBG earmarks and public housing. The empowerment zones, having one in my district and knowing how well it works and how

well it matches up private funding, I actually think it's a pretty good program. I think it could be improved and I don't have any problem with doing different programs to get the money in the same place.

But I guess I was a little surprised, very surprised to see it zeroed out particularly when the Administration just added nine new ones. If the Administration was saying it's a bad program, we're going to zero it out and end it, well, OK, we would have a difference of opinion. But you can't have it both ways. The way I look at it, if you're going to create new ones, and then not fund the existing ones, the only thing I can draw from that is that you have drawn the conclusion that the existing ones are finished. That they have accomplished their goals, that it's a good program that we should continue and that is just not even close to the case. I guess I'd like some explanation as to why that—what appears to me to be an internal inconsistency.

Secretary MARTINEZ. Help me with which empowerment zone is in your district and—

Mr. CAPUANO. Boston. I don't know.

Secretary MARTINEZ. Cambridge?

Mr. CAPUANO. Boston.

Secretary MARTINEZ. Cambridge.

Mr. CAPUANO. No, Boston.

Secretary MARTINEZ. OK. Boston. OK.

Mr. CAPUANO. It's a round two.

Secretary MARTINEZ. I couldn't find the exact. A round two, OK.

Boston is a good example of the problem we're facing. Boston has been granted, so far, authorized \$18,972,866, of which they've utilized so far, \$1,166,000. They have utilized 6 percent of what's been appropriated so far.

Mr. CAPUANO. Right.

Secretary MARTINEZ. This is a 10-year program. We are 50 percent of the way through the program. So our prediction is that in the next 5 years at the utilization rate there's sufficient funds available which is approximately 80 percent of the appropriated funds that they can draw down as they go forward.

And, in addition to that, it has been our experience in some of the studies we've seen that the most successful part of these programs is not the grants, but is the tax credits. And so that's the part of the program that makes them really work and we feel like that is the right way to go.

Mr. CAPUANO. I don't dispute that last part, but the first part, the reason that they hadn't been able to utilize it is because this particular round two has been fits and starts. You can't make a plan, you can't make partnerships, you can't make deals if you're not sure where the funding is going to come from.

And the problem with this round two, as I've seen it, is that one year they get funding, the next year they don't, then they do, and now they're up for grabs again. How do you make a plan? How do you make a development? How does any developer want to come in and be a partner to a program that he is not even sure is going to be existing next year? That has been the problem that we've seen in Boston.

So, I don't know about others, but I will tell you without question that's been our problem. If it were reduced amounts of money, which it was.

Secretary MARTINEZ. They've got \$17,800,000 to make——

Mr. CAPUANO. Almost all of that came in the last year-and-a-half and that's been the problem—the inconsistency.

Secretary MARTINEZ. But it's there.

Mr. CAPUANO. I understand that. But without the consistency, there's no guarantees that the next round is going to come, or the next round is going to come, or the next round is going to come. And that's the problem that I have with this kind of budgeting.

I would rather, for planning purposes have a low—if that's what it's going to be, we'll fight about the amounts of money, but have a definitive amount of money that is there from start to finish of the program so that the people doing this can plan it and go out and make their deals, can get business people in, can talk to bankers, and say, we're going to make our share.

Since my time is running out, I do want to hit two other things. Public housing. I understand the concerns about public housing. I don't think anybody is going to debate the general concerns that public housing is not been where we want it to be. But the answer to that is not to cut back capital funding.

I understand some of the concerns and some of the concepts of changing over to project-based Section 8. I'm not so sure I'm totally—I am not close-minded on that at all, but in the meantime you cannot just walk away from it. And if we are going to get to project-based Section 8, which is fine, we can talk about that, we still have to have a plan and you still cannot let the existing plant deteriorate until that program gets done. And that has been my big fantasy, last year and this year, particularly when you add that on top of the drug grant, and we heard Mr. Baker talk about what some of his problems were and some of his issues—not “his”—but, his district's.

[Laughter.]

Mr. CAPUANO. I know. I clarified that.

[Laughter.]

Secretary MARTINEZ. Let me say that we believe that \$120 million from the Capital Fund, which would be available to generate this other private financing, could lead up to \$500 million this first year in refurbishments and renovations. So our hope is that not only is it not going to diminish, but it's going to increase the amount of money available to fix the current stock of public housing.

You know, that's really the best answer I can give you. I think it's something we're trying and want to see how it works. I think it's worth pursuing, because frankly for more than my lifetime as a Secretary, and more than my lifetime probably living, there has been a backlog of public housing, capital fund needs. You know, the backlog of \$20 billion is like a revolving fund. It never seems to be drawn down, it never seems to get lower.

So I think this is an innovative way that we can get project-by-project improvements that I hope will improve the lives of the people who live in public housing.

Mr. CAPUANO. Mr. Secretary, my time is up, but I don't disagree with some of the ideas to experiment, but you don't experiment by cutting off your arm. You experiment, and if it works, then you can change the monies as opposed to cutting off before you have the experiment. And my time is up and thank you.

Chairman GREEN. The Chair recognizes Mr. Clay for 5 minutes.

Mr. CLAY. Thank you, Mr. Green.

Mr. Secretary, good to see you again.

Secretary MARTINEZ. Yes, sir.

Mr. CLAY. In your opening statement you talk about a tax credit for developers for single-family, affordable housing. Would that require legislation? Help me out here.

Secretary MARTINEZ. Let me—

Mr. CLAY. Or do you have the authority now to issue the—

Secretary MARTINEZ. No, no, this would be a program that would be under the Department of the Treasury, and it would be new legislation that would be required; yes, sir.

Mr. CLAY. It would be new legislation and do you know if it's been introduced yet?

Secretary MARTINEZ. It will be shortly.

Mr. CLAY. It will be shortly. Thank you. I am interested in that.

You also talk about reconfiguring the community development block grant program and you want to ensure that the funding actually goes to those communities who need it the most, and I couldn't agree more with you on that program. Do you have an idea of how this will work?

Secretary MARTINEZ. The idea is that there are a number of communities that really under anyone's analysis of them they are really not poverty communities. So we are trying to take a little bit of their money—50 percent—and try to focus that money on communities that need it more. So basically the money will be redistributed according to the formula, so there won't be any targeting of those funds, but it will give less CDBG monies to those communities who frankly, they're more than 200 percent of median income.

Mr. CLAY. How about in a city such as St. Louis, which has some wealthy neighborhoods and other poverty stricken neighborhoods; will there be a formula or method of ensuring that those neighborhoods who have the severest need actually get the funds?

Secretary MARTINEZ. Unfortunately, this is not reaching that far. We are now dealing with communities who on the whole are viewed as very wealthy communities. A place like St. Louis, that's going to be a local battle and, you know, at the local level to decide where the CDBG funds get spent.

Mr. CLAY. I see. OK. Now, about in your budget, you know, you acknowledge that there are some five million families with the worst case housing needs. Do you believe that your request for 34,000 incremental vouchers is adequate to address this need?

Secretary MARTINEZ. It's more than adequate in terms of the utilization. We find that the recapture on vouchers is about \$2 billion a year. And therefore, we're not currently seeing all of the vouchers utilized. What we are seeking to do as well is hoping that we can transfer vouchers from those communities that don't find it pos-

sible to use them to those that desperately need them and have a waiting list.

Mr. CLAY. The last Congress, one of the biggest issues in this subcommittee was the concern about Section 8 opt outs. Approximately how many Section 8 units have opted out of the Section 8 system in the last 2 years? And how many units have participated in HUD's mark-to-market preservation programs, would you know?

Secretary MARTINEZ. Well, let me give you one answer and offer you a second one that will have to come to you. I don't know how many is on your first question, but the mark-to-market has been working well and we have been able to preserve an awful lot of the Section 8 housing as Section 8 housing. So mark-to-market is working, it is having success. It was renewed and we look forward to that continuing to be successful. But I would have to get back to you on the specifics of the other question.

Mr. CLAY. Just one more issue. I don't know if you have reviewed the proposed legislation for Ginnie Mae Choice. And if you have, would you have an opinion on it?

Secretary MARTINEZ. I have begun to review it, but I do not yet have an opinion on it, sir.

Mr. CLAY. Would you share that with us?

Secretary MARTINEZ. The Administration has not taken a position.

Mr. CLAY. I thank you for that.

Secretary MARTINEZ. You'll hear.

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

Chairman GREEN. The Chair recognizes Mr. Sanders for 5 minutes.

Mr. SANDERS. Thank you, Mr. Chairman.

Welcome, Mr. Secretary.

Mr. Secretary, you will allow me to respectfully disagree with some of my colleagues. I happen to believe, and I think you have acknowledged yourself that this country faces a terrible housing crisis.

In my State it is not only a question of homelessness which exists all over America, it is a question nationally, and in Vermont, of millions of people who are working at low-wage jobs. You can do the arithmetic as well as I can, the minimum wage now is \$5.15 an hour and perhaps you will tell me how you think somebody can afford housing at \$5.15 an hour. People making seven bucks an hour, eight bucks an hour who are paying, 40, 50, 60, and in some cases 70 percent of their very limited incomes for housing. This is unconscionable, this is wrong.

And the budget that the Administration brought forth is totally, absolutely inadequate. And it speaks to the moral question as to how we can give hundreds of billions of dollars in tax breaks to the richest 1 percent, folks who do not have a housing problem, yet not have adequate funding to make sure that working families can keep their kids in safe and decent housing.

My question for you to begin with, I have been working with the National Low Income Housing Coalition on a piece of legislation called "The National Affordable Housing Trust Fund." And this is tripartisan. It has 164 co-sponsors. And I know earlier you talked about faith-based initiatives. It has many religious organizations,



including the Catholic Charities are in support of it. This is serious about dealing with the housing crisis.

This would build over a million units of affordable housing in the next 10 years and in the process put a heck of a lot of workers to work doing meaningful work and earning decent wages.

As I mentioned earlier, we have 1,800 organizations including business groups in California who understand they can't attract workers because the cost of housing is so expensive. We have church groups, we have unions, we have low-income organizations who say that the time is now to be serious about addressing the national housing crisis.

I just have a couple of questions. Number one, would you be interested in speaking with me and some of the groups who are sponsoring this legislation so that we can explain to you what this legislation would do? Can we meet with you to do that?

Secretary MARTINEZ. Absolutely. Would be delighted.

Mr. SANDERS. I appreciate that very much.

Secretary MARTINEZ. I look forward to hearing it.

Mr. SANDERS. My second question I will get in touch with you to see if we can work out a time.

Secretary MARTINEZ. Sure.

Mr. SANDERS. The second issue is, do you believe, in fact, do you agree with me that this country is facing a serious national housing crisis?

Secretary MARTINEZ. I believe that the problem you cite about the inability of some people who work at low-wage jobs to find affordable rental housing is a serious problem.

Mr. SANDERS. No, I'm not talking about some people. I'm talking about millions of people.

Secretary MARTINEZ. A definable number of people that we call—

Mr. SANDERS. Not a definable number of people.

Secretary MARTINEZ. Well—

Mr. SANDERS. In other words, I don't want you to pass this off as, well, it's a problem that the guy across the street has. I am suggesting that this is a national crisis affecting millions of people. Do you agree with me?

Secretary MARTINEZ. It is a national problem affecting millions of people.

Mr. SANDERS. OK. I would use the word "crisis" I gather you do not.

Secretary MARTINEZ. I do not use the word "crisis"; but I think it is a serious problem.

Mr. SANDERS. OK.

Secretary MARTINEZ. And it is one that merits addressing and discussing seriously as to how we might approach it.

Mr. SANDERS. Can you tell us with a straight face—and I don't blame you for preparing the budget, I know that the President has lots of needs out there and so forth, but can you tell us with a straight face that you think that this budget addresses the seriousness of the housing crisis that this country faces?

Secretary MARTINEZ. Congressman Sanders, I think that this is a budget that's serious and responsible. I think it's a budget that

addresses an awful lot of the problems that our country faces. We could be just as passionate.

Mr. SANDERS. Housing.

Secretary MARTINEZ. Well, it is obviously about housing which is what the budget addresses. I think at a time of a national recession, I think at a time that we are at war, and I think at a time when this—

Mr. SANDERS. We have given hundreds of billions of dollars in tax breaks. Do you want to add that to your statement?

Secretary MARTINEZ. What I prefer to say to you is, that I look forward to working with you to find what we might disagree on the solutions, but at least to discuss what solutions we might find to what we both have agreed is a problem.

The bottom line is that your solution to it and mine might be different. The depth of your concern, I think, speaks to your commitment to finding a solution and I welcome the opportunity to work with you toward that.

We may have different alternatives that we consider as positives in terms of what outcomes we come to. The Millennial Housing Commission I know has been addressing this very issue. And I look forward to hearing what they have to say. They've spent 18 months studying the problem and some of the people that you've mentioned I know have been represented at this Millennial Housing Commission. So I look forward to hearing what proposals they might make and I look forward to meeting with the groups that you've identified and hearing what proposals they might make.

Mr. SANDERS. I appreciate that, because I've been involved in politics for a few years. I have never seen 1,800 different organizations, business groups, labor unions, everybody in between speaking about the need to address this crisis coming together around a piece of legislation. So, Mr. Secretary, I'll give you a ring. Let's see if we can get together.

Secretary MARTINEZ. Absolutely.

Mr. SANDERS. Thank you very much.

Thank you, Mr. Chairman.

Chairman GREEN. The Chair recognizes Mr. Israel for 5 minutes and thanks him for his patience.

Mr. ISRAEL. Thank you, Mr. Chairman. It's my pleasure. And it's a privilege to be here with you, Mr. Secretary.

In the interest of time I'll be brief. I have a bunch of questions that I will submit in writing.

First, Mr. Secretary, I'm from Long Island which is a high cost of living area. And I can't tell you how many veterans come to my office who are homeless, in search of housing, just barely hanging on. I'm wondering whether you would be willing to have a dialogue with me and try and develop some ways of providing some additional Section 8 help for those veterans on a priority basis within the constraints of the law? Is your department willing to work with us and attempt to help veterans who are just barely hanging onto their homes or don't have homes?

Secretary MARTINEZ. Yes, sir. And I want to tell you that we have been doing some things in working with the veterans, the Department of Veterans Affairs and the Supportive Housing Program for veterans is something that we have been addressing and I

agree with you that this is a problem that needs also to be addressed and I'll be happy to meet with you.

Mr. ISRAEL. Great. I would appreciate that and we'll be in touch.

Second, just to pick up on something that my colleague from Missouri mentioned with respect to CDBG funding that had been removed from counties at 200 percent of median income. His point was St. Louis has wealthy areas and pockets of poverty. And certainly so does Long Island. We have extremely wealthy areas, but in my district we have some very troubled underserved communities.

In Long Island we have an organization called the Long Island Housing Partnership and many of your predecessors and Democratic Administrations and Republican Administrations have been kind enough to visit Long Island. And I can assure you when they got on the plane to head to Long Island, they couldn't understand why they were going to this rich area. And as soon as they landed and toured some of the projects that the department worked on with the Long Island Housing Partnership they understood that this is an area that has poverty, has homelessness, and needs help.

You had mentioned to Congressman Clay that haven't quite reached that far with respect to fine tuning the formulas in dealing with wealthy areas that have pockets of poverty. Is there a way that we can discuss fine tuning those numbers?

Secretary MARTINEZ. Well, you know, this is an apropos time—opportune time—we are in the midst of a Census year, so the report from the Census comes out, the CDBG formula has been discussed in the Congress before and I think it ought to be discussed again and how it might be tweaked in order to make it applicable to problems like you mentioned.

Mr. ISRAEL. So you're open to that dialogue as well?

Secretary MARTINEZ. Absolutely

Mr. ISRAEL. Terrific. Final question, Mr. Secretary. I've been told by members of the Native American community that black mold has become a dire health problem to them and other throughout the countries in HUD projects. It's been linked to skin rashes, fever, inflammation of the respiratory tract, neurological problems, depression; can you tell us what HUD is doing with respect to some of the studies that have been issued on black mold and what your plans are in order to deal with that?

Secretary MARTINEZ. We've had a very aggressive program in trying to deal with the health risks associated with housing and the lead-based paint initiative also includes asthma and mold as part of what we are addressing. So we are looking at the problem. There is funding available to deal with it and we are, in this budget, I can't tell you off the top of my head now the increase, but there is an increased amount of money. I believe it's going to be \$126 million altogether with a very significant increase for that area of health-related issues.

Mr. ISRAEL. Would you be kind enough to contact my office and give us an approximate timeframe for the studies that are dealing specifically with black mold?

Secretary MARTINEZ. There are no ongoing studies that I'm aware of, but we are dealing with how to get housing that is af-

flicted with the problem, how to fix the problem so that people don't have to live in those conditions.

Mr. ISRAEL. OK. If possible I would like to follow-up with you at another time.

Secretary MARTINEZ. Our office, you know, we have a very active program in this area working in partnership with EPA in some instances and we would be happy to bring you up to date.

Mr. ISRAEL. Just so I understand, no study but funding and programs to remediate?

Secretary MARTINEZ. Right.

Mr. ISRAEL. OK.

Secretary MARTINEZ. And there may be some study associated with some of this, but it's an ongoing program of remediation.

Mr. ISRAEL. Great. We'll follow up with you and I thank the Chairman for my time. I yield back.

Chairman GREEN. Thank you, Mr. Israel.

The Chair notes that some Members may have additional questions for this panel which they may wish to submit in writing. Without objection the hearing record will remain open for 30 days for Members to submit written questions to the witness and to place the responses in the record.

The hearing is adjourned.

Thank you, Mr. Secretary.

[Whereupon, the hearing was adjourned.]

# **A P P E N D I X**

February 13, 2002

Opening Statement of the Honorable Mark Green  
Vice-Chairman  
Subcommittee on Housing and Community Opportunity  
Committee on Financial Services

Subcommittee on Housing and Community Opportunity Hearing on  
"The HUD FY 2003 Budget Proposal"

Wednesday, February 13, 2002

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The Committee will come to order

Today marks the first hearing of this session and we are honored to have the Honorable Mel Martinez, Secretary of the Department of Housing and Urban Development here to discuss the Administration's FY 2003 proposed budget. Thank you Mr. Secretary for appearing before this Subcommittee.

I am chairing this hearing in the place of our Subcommittee Chairwoman Marge Roukema, who is unable to be here today. However, we will insert her opening statement into the record and look forward to her continued leadership on housing issues.

During the first session, the Housing Subcommittee conducted a series of seven hearings to identify the contemporary housing issues facing this country. As a result of those hearings, I expect to work with Chairwoman Roukema to introduce an Omnibus Housing bill designed to address many of these housing issues.

During those hearings last session, it was evident that housing was not a Republican or Democratic issue; in fact, there were as many Members of both parties actively engaged in our hearings. Through the hearings we understood the growing housing affordability and availability crisis confronting this country, particularly in high-cost areas. While we may have various opinions on how to address housing problems, it is clear that we all agree that we can do better. The housing budget the President proposes is a good start.

You and the Administration are to be commended for crafting a housing budget that makes homeownership and housing affordability for all Americans a priority. Certainly not everyone will agree with the funding levels and program changes outlined in this budget, but we can agree on the goals of increasing homeownership for all and providing affordable housing to more Americans.

Our country is fighting two battles: one against terrorism and the other to overcome a slow, weakening economy. In the midst of all the

negative economic news over the last year, the housing market has been the one bright spot. Housing posted its best year in history last year. There is no doubt that housing can be a significant catalyst on the road to economy recovery.

The budget contains a number of provisions designed to create opportunities for homeownership, to revitalize communities and to create incentives to build new affordable housing. I know I speak for Chairwoman Roukema and others on the Committee when I say that we are anxious to work with you to enact initiatives that will expand affordable housing to meet the needs of low-and moderate-income Americans.

For example, the budget provides for an increase in 34,000 new incremental rental subsidy vouchers. This is great. However, we should ensure that the vouchers can be utilized and that hard-to-house families can find shelter. The budget provides for a three-fold increase in funding for the Self-Help Homeownership Opportunity Program (SHOP), a perfect example of leveraging private and non-profit resources with limited government funds to create homeownership opportunities.

I am particularly interested in the President's American Dream Downpayment Fund, which will provide an additional \$200 million in funding for downpayment assistance to first-time, low-income homebuyers. Coupled with that assistance, the Administration is proposing that section 8 funds be used to assist low-income families moving into homeownership. We know that homeownership strengthens communities and these initiatives will begin that process.

This HUD 2003 budget represents a seven percent increase. However, Mr. Secretary, I would like to measure housing policy success not by mere increases in budget authority but by the success stories we can document at the end of our term. I am concerned that rental housing vouchers are underutilized in both high-cost and average rental markets. We should provide those local administrators with the flexibility necessary to achieve higher utilization levels. I am concerned that the Department is unable to reimburse non-profit organizations for technical assistance provided and authorized by law. We can do better to efficiently manage our housing programs.

As you may know, I have a strong interest in promoting faith-based organizations because of the tremendous success stories and records they have in the area of assisting very difficult and challenging populations. In that regard, I applaud the Administration's acknowledgement that "HUD will comprehensively reform [its] rules and regulations to establish a level playing field for faith-based and community organizations that seek to partner with the Federal government..." I look forward to working to eliminate those regulations and handbook policies that preclude what I believe could be a great relationship and partnership.

Mr. Secretary, this Administration has a great opportunity to turn-around this agency and to lead the way to an innovative housing policy that understands the value of partnering with the public sector and our local and state governments. Your good will, integrity and willingness to work with Congress is appreciated and I'm sure will move us to higher homeownership and rental opportunities.

I yield to our Ranking Member Mr. Barney Frank.

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Opening Statement  
**Chairman Michael G. Oxley**  
**Committee on Financial Services**  
Subcommittee on Housing and Community Opportunity Hearing on  
February 13, 2002  
“The HUD FY 2003 Budget Proposal”

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Thank you Mr. Vice-Chairman for holding this hearing.

I would like to welcome Secretary Mel Martinez to the Subcommittee today.

I have had the opportunity to work with you on several initiatives during the past year and I want to personally thank you for your assistance and your leadership. I am looking forward to your much-promised visit to the Fourth Congressional District of Ohio so that you can see the fine work of the non-profit organizations that are providing needed housing to working Americans.

Today, you are one of the few departmental secretaries that received a proposed increase from last year's budget – approximately seven percent. This increase is a signal from the Administration that housing is an important issue and that we must not only ensure that the taxpayer's investment is maximized but that we continue to create new ways to ensure housing for all Americans.

At last year's hearing, you indicated that you and your staff would need at least a year to refocus HUD and guarantee that the trains would run on time. It is my hope that as you begin your second year at the helm, HUD will provide the leadership necessary to shepherd our housing policy in eliminating programs that are antiquated, costly and ineffective. Our Committee looks to you to replace them with ideas that are cost-effective, sensitive to the needs of hard-to-house families and individuals, and allow greater local and state control. Certainly, this budget is a good start.

I am elated that the budget proposes a lower mortgage insurance premium for the FHA multifamily insurance program, which will produce an additional 50,000 units. I also applaud the Administration for its proposal to renew all section 8 rental subsidy contracts. Moreover, your three-fold increase in funding to the Self-Help Homeownership Opportunity Program (SHOP) will leverage limited government funding, faith-based and non-profit organizational leadership and private financing to create approximately 3,800 new homes.

However, I am concerned that in future years, rental subsidy contract renewals will consume a significant portion of the housing budget and preclude new housing initiatives. We will need to review this issue for its long-term impact and prepare the Congress for the difficult decisions ahead.

Finally, I applaud the President's leadership, particularly his reference in the State of the Union that encourages greater homeownership especially among minorities. I believe that under the fine leadership of our Housing Subcommittee Chairwoman Marge Roukema, Vice-Chairman Mark Green and Ranking Member Barney Frank, we can create an omnibus housing bill that provides for greater homeownership and rental opportunities, as well as community and economic development initiatives to sustain and enable communities to flourish.

I would ask that the Department, however, accelerate the reimbursement process for non-profit organizations expecting payment for providing technical assistance in their local communities. I believe we were very clear through legislation passed in December that we intended for the Department to reimburse these groups. To underscore the importance of these groups, I want to highlight two in Ohio: the Ohio Coalition for Housing and the Homeless which provided workshops to section 8 residents; and the National Housing Trust, in cooperation with The Enterprise Foundation, which provided predevelopment work associated with Mount Vernon Square Plaza I and II in Columbus.

Mr. Secretary, thank you for your leadership, and many thanks to our Housing Subcommittee Chairwoman Roukema and Vice-Chairman Green for their work on these issues.

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**Opening Statement**  
**Congresswoman Julia Carson**  
**Committee on Financial Services**  
**Subcommittee on Housing and Community Opportunity**  
**Hearing on FY03 HUD Budget**  
**February 13, 2002**

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I would like to begin by thanking Secretary Martinez for appearing today before the Subcommittee on Housing and Community Opportunity. I am looking forward to hearing your testimony on the proposed HUD budget and working with HUD to make sure the budget is a genuine reflection of the housing needs of Americans burdened by the slowing economy and rising unemployment.

Last year's HUD budget emphasized and dedicated enormous resources to helping people realize the dream of homeownership. This emphasis reflected a bright economic forecast, including expectations of large budget surpluses. The economic outlook has changed dramatically since last years budget, but the HUD budget proposals have not.

In a letter you sent to me dated February 12<sup>th</sup>, 2002, you said HUD would keep its "commitment to non-homeowners by improving public housing and providing more choices for those living in assisted housing". After noting that more than 4 million households currently rely on HUD programs to meet the costs of rental housing, you said that you have made a "commitment to improving the quality of existing public housing stock."

I am concerned the FY03 HUD budget does not reflect your commitments. The budget cuts public housing programs by \$398 million. Spending for public housing authorities to repair and modernize dilapidated public housing is reduced. Given the difficult economic times, I am afraid the budget emphasis on homeownership at the expense of rental housing assistance is out of step with the needs of average Americans.

The budget proposal also calls for the end of chronic homelessness in ten years. In my District of Indianapolis, the Coalition for Homelessness Intervention and Prevention is pursuing this noble goal. Unlike my District, the amount of resources necessary for ending homelessness is not reflected in the HUD budget. As pointed out by the National Low Income Housing Coalition, the transfer of \$153 million from the FEMA Emergency Food and Shelter Program to HUD should not be misinterpreted as an increase in funding for homeless assistance.

Moreover, several funding decisions are commendable. Notably, the Section 8 housing assistance program remains fully funded and an additional 34,000 new vouchers are proposed. Housing Opportunities for People with AIDS, Habitat for Humanity, and Lead Paint Prevention Grants have been essential to helping Hoosiers in need of assistance, and have received proposed funding increases.

On behalf of my District and the Indianapolis Housing Agency, I would like to thank the Secretary for a HUD grant to demolish the Clearstream Gardens site in Indianapolis, which will allow the IHA to begin improvements on a long-standing, blighted property within the community. I would also like to commend the Indianapolis offices of HUD to the Secretary. I have always valued their dedication to working with the Indianapolis community to move people off the streets, out of shelters, and into homes.

I look forward to the Secretary's testimony.

## **OPENING STATEMENT**

### **Subcommittee On Housing and Community Opportunity**

**Rep. Stephanie Tubbs Jones**

Good Morning, Chairman Roukema, Ranking Member Frank and Members of this subcommittee. Madame Chairwoman, I ask unanimous consent that my full statement be included in the Record.

Madame Chairwoman, we are here this morning to hear from Secretary Mel Martinez relative to HUD's budget. Many of us hear from constituents and housing groups, on a daily basis, about the lack of affordable housing and other concerns. Therefore, it is important for us to examine the direction of HUD and this Administration relative to one of the major crises facing this nation, and that is the lack of affordable housing for low-to-moderate income persons.

I am still concerned, after reviewing HUD's budget, that this Administration still has not fully addressing our national housing concerns. It is imperative that this nation move forward with a National Housing Trust, provide greater funding for public housing and develop an improved, more flexible Section 8 program that can meet challenging demands within various housing markets.

The President, on many occasions, has touted "not leaving any child behind." However, the proof is in the pudding. Public housing which houses some of our more vulnerable citizens and children, 3 million low-income residents and over one million children, suffers a loss of about \$438 million, particularly with repair and modernization of public housing units. No having funds to upgrade and improve living conditions does leave not just a child, but many children behind.

What does this cut mean for public housing? Well, this means many capital improvements in a housing authority cannot be undertaken. These cuts disrupt long term planning and multi-year commitments as well as making it impossible to address the existing modernization needs that were identified by HUD. But what does this really mean? This means living conditions will be worse for public housing residents who need HUD's support.

**Next, the elimination of the Public Housing Drug Elimination Program.** These grants allowed housing authorities to develop unique programs designed to fight against drugs and drug-related crime in their communities. It is difficult to sit high and

look down and not realize how these programs keep kids from being involved in drug-related activities or joining gangs. We should do all we can to encourage safer public housing communities. The reality is that every person wants to live in a safe, drug-free community.

In addition, Mr. Secretary, I am saddened by the elimination of empowerment zone funding as well as funding cuts for EDI grants and Neighborhood Initiatives. I read the rationale behind those program eliminations, but offsetting CDBG support did not match up. CDBG, in fact, only increased by \$88 million, a loss overall of \$248 million dollars. Many communities will suffer with this loss.

As a member of the Congressional Black Caucus Foundation's Housing Task Force, a task force where many of my colleagues represent rural districts, HUD's budget elimination of funding for rural housing in the amount of \$25 million is a real step backwards. Even with the new "Colonias Initiative", funded at \$16 million, rural housing still suffers a loss. Homeownership and development must occur jointly in urban centers as well as rural communities.

While I support increases in homeownership initiatives, from downpayment assistance to housing counseling, these efforts will prove fruitless until we begin to develop and preserve the supply of affordable housing units suitable to address the lack of affordable housing or homeownership. This inadequate funding of HUD sends the wrong message today in areas where growth and prosperity has yet to materialize. Now is not the time for retreat, it is the time to forge ahead.

Mr. Secretary, I do have some follow-up questions relative to the freeze on technical assistance grants that are hampering the efforts of housing groups in Cleveland and around Ohio. But, I will hold those for questioning.

Madame Chairwoman, thank you again for the opportunity to present my remarks. I look forward to the Secretary's testimony.

**Rep. Barbara Lee  
Housing Subcommittee Budget Hearing  
Opening Statement  
February 13, 2002**

Thank you Mr. Chairman and I welcome you Secretary Martinez to this hearing. Housing policy and funding is of great concern to me and my constituents throughout Alameda County in the Oakland - San Francisco Bay Area. We need a national affordable housing strategy.

In my district, housing affordability is among the worst in the nation. The California housing wage – the wage to afford a 2 bedroom apartment – is \$18.33 per hour, well above the state minimum wage of \$6.75.

Thousands of people who face this housing wage gap are either being pushed out into the streets, becoming homeless or forced to commute great distances which brings on additional transportation and daycare costs, as well as reduces quality time spent with the family.

There are between 4000 and 6000 homeless in Oakland and more than 13000 in the rest of Alameda County.

This is a real life issue that is not only affecting my constituents every day, but millions of people throughout the country.

The people who need housing are workers who support our economy and parents who have children to take care for.

These are real people with real issues that need to be addressed, and I'm concerned that affordable housing production is not a priority in this Administration and I look forward to your testimony on this and other parts of the proposed FY 03 HUD budget.

CAROLYN B. MALONEY  
14th DISTRICT, NEW YORK  
2430 RAYBURN HOUSE OFFICE BUILDING  
WASHINGTON, DC 20515-3214  
(202) 225-7844  
COMMITTEES:  
FINANCIAL SERVICES  
GOVERNMENT REFORM  
JOINT ECONOMIC COMMITTEE



**Congress of the United States**  
**House of Representatives**  
Washington, DC 20515-3214

DISTRICT OFFICES:  
 1651 THIRD AVENUE  
SUITE 311  
NEW YORK, NY 10128  
(212) 960-9506  
 28-11 ASTORIA BOULEVARD  
ASTORIA, NY 11102  
(718) 932-1804

Statement of Rep. Carolyn B. Maloney  
February 13, 2002  
Subcommittee on Housing

**HUD BUDGET FAILS TO MEET NEW YORK CITY'S HOUSING NEEDS**

The Administration's 2003 HUD budget proposal severely neglects the nation's severe housing needs and threatens New York City's ability to continue improving the safety of public housing. The Bush housing budget fails the homeless and limits the ability of housing authorities to maintain livable developments.

While the Administration budget claims to increase HUD funding by over \$2 billion, almost all of the increase goes to expiring Section 8 contracts at a time when Congressional hearings have demonstrated a tremendous need for new housing around the country. By HUD's own admission 5 million American families have worst case housing needs and yet the budget requests only 34,000 incremental vouchers, half the number funded two years ago.

The Administration's budget proposal significantly cuts public housing including a \$438 million cut to the capital fund used for repairs. Homelessness remains a problem across America. While the budget submission claims that ending chronic homelessness in the next decade is "top objective" of President Bush's HUD, the budget fails to boost overall homelessness funding.

The budget follows through with the Administration's plan to discontinue the Drug Elimination Program which funds extra police officers in housing projects in New York City and around the country. The Administration's contention that this program is ineffective is simply wrong. In New York City, the crime rate dropped at Housing Authority developments by 6.2% from 1999 to 2000 versus 5.6% citywide. This is due in large part to the 270 police officers funded by Drug Elimination Program. HUD contends that funding can be made up from other sources but given the lack of funding commitment to public housing this simply is not possible.

Finally, the Administration proposal for Community Development Block Grants (CDBG) fails to keep up with inflation and the funding for the new round of empowerment zones is zeroed out. As the housing budget moves through Congress I will fight to improve this woefully inadequate submission.



Opening Statement of the Honorable Gary G. Miller  
Housing and Community Opportunity Subcommittee  
Hearing on HUD's FY 03 Budget  
Wednesday, February 13, 2002

Thank you, Chairwoman Roukema. I was pleased to learn that you were calling this hearing, because I believe that our nation's budget is really a reflection our priorities. I also serve on the House Budget Committee, and frankly Congress has been in a very fortunate position the last few years. Our economy had been relatively solid, our nation was enjoying a time of peace, and we faced few national emergencies. Unfortunately, we now find ourselves facing very different circumstances and very different budget realities. As a result, our budget must ensure that adequate resources are directed to win the War on Terrorism, strengthen homeland defense, and spark economic growth.

In this new era of tight budgets, I was pleased to see the Administration propose a 7% increase for the Housing and Urban Development Budget. Secretary Martinez, as you and I have discussed in prior meetings, our nation is facing a housing crisis which merits attention from the highest levels. In Orange County, California, which part of my district includes, the median home price has reached \$338,500. In order to buy a home, an individual or couple must have a qualifying income of \$112,833. This problem is compounded by the high cost of rental housing. If an individual or couple is paying the average rent of over \$1,000 a month, it is difficult to save for a down payment. I fear that we are creating a new generation of "homeless" people which is composed of college-educated professionals and two-income households. These "new homeless" have what appear to be good incomes, but they live in tight housing markets with rapidly escalating prices. Sadly, this trend is not unique to my district or Southern California; individuals in San Francisco, San Jose, New York City, and even here in DC are among these new "homeless."

While many of HUD's programs are designed to benefit individuals with substantially lower incomes, I feel that we must also address this "new homeless" population. Otherwise, we create a disincentive to achieve a higher standard of living. Prior to the historic welfare reform of 1996, this disincentive dominated many of our social programs. Why work when idleness brought a reward? In this case, the question is why work hard when others who do not make as much money have more homeownership options.

I believe that we should start addressing this problem by studying the costs associated with building new homes. During my 30 years as a homebuilder, I felt like each year brought more and more government regulations and requirements which increased my costs. I've estimated that 30% of the cost of a home is directly related to government fees and regulations. More documented evidence regarding the costs associated with construction would provide both this Committee and HUD with the direction needed to find solutions to one part of this problem.

Additionally, we must also study the second half of this equation - tight housing markets. What is discouraging new building? Anecdotal evidence I've solicited indicates that the Endangered Species Act is being used to limit new construction and severely constrain existing inventory. Again, I hope this Committee will investigate this matter for future action.

Mr. Secretary, I noticed that your budget includes a proposal to de-couple the Brownfields program from the Section 108 loan guarantee program. As you know, I have introduced H.R. 2941 to do this. I feel that de-linking the grants from the loans will make it easier for smaller communities to access the funds needed to revitalize Brownfields sites. It is estimated that 550,000 jobs could be created by returning current Brownfields sites to productive economic uses.

Secretary Martinez, I want to thank you for coming today. I look forward to hearing your testimony and working with you to ensure that HUD's budget reflects its priorities.

Congresswoman Jan Schakowsky  
February 13, 2002  
Financial Services Subcommittee on Housing and Community Opportunity  
"Proposed HUD Budget for 2003"

Madame Chairwoman and Ranking member Frank I thank you for holding this important hearing today. I welcome Secretary Martinez to our committee

I am pleased that the Administration's request calls for renewal of existing Section 8 programs and 34,000 new vouchers but overall the budget is woefully inadequate. I am dismayed that the Administration's HUD budget does not aggressively confront our countries affordable housing shortage.

While we spare no expense to attack terror around the world, we must also use every resource to provide for the critical needs of American families. Some might argue that we do not have the resources to provide affordable housing. I disagree, the budget makes massive tax cuts for the wealthy. This is a matter of priorities. We need to make the needs of American families a priority. This budget simply does not.

Over 16 million families have critical housing needs. Federal support for affordable housing has declined steadily since 1978 when there were \$66.6 billion inflation adjustment dollars for HUD. In FY 2001, the HUD budget was \$28.5 billion with new housing units subsidized primarily through housing vouchers instead of new production. Increased homelessness is directly attributable to the federal governments neglect.

We need to enact a comprehensive and productive plan now. Low and moderate-income families regularly have to choose between paying their rent and paying for other critical needs.

In Chicago more than 200,000 households pay over a third of their income for rent. Of these 75,000 pay more than half of their income on rent. There is a dramatic affordable housing shortage in Chicago. Thirty nine percent of our families cannot afford fair market rent for a two-bedroom apartment. We need 155,000 more units of affordable housing for low-income families. There are over 60,000 families on the waiting list for public housing or rental vouchers. Furthermore 30,000 units of project based housing will expire within in 5 years. The problem will grow much worse if we do not act now.

Please remember that women and children suffer for our neglect. For the second year in a row the Administration has not allocated one dollar to provide victims of domestic violence transitional housing to escape the cycle of abuse. I hope the Secretary will make support us in helping victims of domestic violence.

The housing crisis has a devastating effect on children. For example, average reading scores for elementary age students who moved three or more times were half of those of

students whom did not move. Stable housing is the cornerstone to having future opportunity.

It is well worth the investment. Housing production will stimulate the economy. A five billion-dollar investment would result in up to 1.8 million jobs and \$50 billion in wages. Instead of tax cuts for the rich we should provide people an opportunity to the most vulnerable members of our society.

I am looking forward to hearing the Secretary's testimony. I hope the Secretary will be able to answer all of our questions today.

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WOMEN'S ISSUES

CONGRESSIONAL  
PROGRESSIVE CAUCUS



*Nydia M Velazquez*

Congress of the United States  
House of Representatives  
Washington, DC 20515

NYDIA M. VELAZQUEZ

12TH DISTRICT, NEW YORK

224 RABURN BUILDING  
WASHINGTON, DC 20515  
(202) 225-2361

DISTRICT OFFICES:  
815 BROADWAY  
BROOKLYN, NY 11206  
(718) 599-2658

473 AVENUE B  
NEW YORK, NY 10009  
(212) 613-3997

16 COURT STREET  
SUITE 1006  
BROOKLYN, NY 11241  
(718) 225-5819

Good morning. I would like to thank Chairwoman Roukema and Ranking Member Frank for holding this important hearing and also Secretary Martinez for his testimony today. Mr. Secretary, I look forward to hearing your answers to many of the questions which continue to plague all of us.

Over the last year, a lot of lip service has been given to the state of the housing crisis in this nation. Unfortunately, lip service is all it is. Very little action was taken to improve the lives of the nearly five million families living with worst case housing needs, across the country. That we didn't act while the economy was strong, can only hurt us now.

This budget is largely the same as the one we were sent last year. It was inadequate then, when the economy was strong. It is dangerous today in a steadily worsening economic climate.

I fully understand that the administration will argue that their proposed FY03 HUD budget offers increased or flat funding for almost all discretionary programs, in a lean budgetary year. However, the doesn't alter the fact that the amounts were inadequate last year. Keeping them the same, or in many cases only providing minimal increases that do not even keep pace with inflation, does not make this budget any less egregious.

I am particularly outraged by the fact that the administration has proposed funding increases for many key programs that are so small as clearly to serve only one purpose -- to allow the President to say that he increased the HUD budget. You are playing politics with people's lives and it can not continue.

There are a few specific areas of your budget that are of particular concern for you. I have significant reservations about your proposal to move public housing to project-based Section 8 housing. It seems to be offered as a salve against the cuts to the Public Housing Capital Fund and projected as an ultimate cost savings for the government, by allowing the private sector to shoulder some of the costs. I find this to be faulty logic at best.

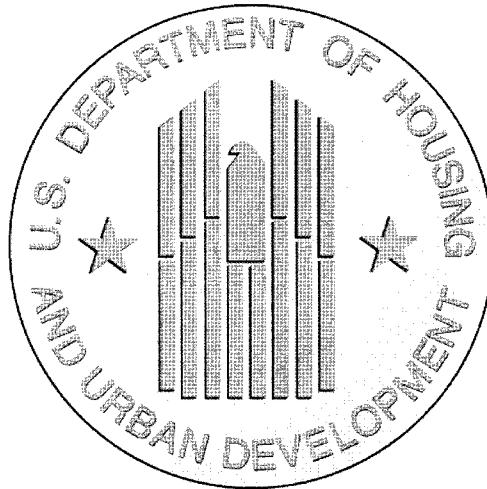
We are all concerned about the rising costs and increasing difficulty of renewing our existing project based Section 8 contracts. It strikes me that we are asking to exacerbate this problem by exponentially increasing the number of contracts needing renewal and the cost to the government of doing so, when these newly created contracts expire. I certainly hope this is not a back door attempt to limit the number of low-income housing units available. We need to increase accessibility to affordable low-income rental housing, not restrict it.

I would like to take a moment to address the \$200 million budgeted for the President's American Dream Downpayment Fund. This money, which you are asking the Congress to appropriate on top of the \$50 million appropriated last year, will go towards a fund for which there is no authorizing language. Furthermore, no one has seen any proposed language, or for that matter, heard any word of your intentions to send over such language before the appropriations season gets going.

While I agree that homeownership is an important goal and an essential piece of the American dream I am troubled about the prospect of even more money sitting unused when our budget for other worthy programs is stretched incredibly thin. I am also troubled by the implication that homeownership is the answer for all Americans, when many of my constituents can not afford low-rent apartments. Making the leap to homeownership is not on their list of immediate priorities -- paying next month's rent is. And we need to ensure that they can afford to do that today.

The catchword of the year is definitely security. It seems to me that the administration has overlooked the reality that housing provides security to each of us, everyday, in the most basic sense. It provides both the physical security of a place to come in from the rain and the economic security of for many people their single largest investment. For too many American citizens, this sense of security is denied. The HUD budget does nothing to fix this, and that is a situation that I, and all of us here, should find untenable.

**STATEMENT OF MEL MARTINEZ  
SECRETARY  
U.S. DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT**



**BEFORE THE  
UNITED STATES HOUSE OF REPRESENTATIVES  
COMMITTEE ON FINANCIAL SERVICES  
SUBCOMMITTEE ON HOUSING AND COMMUNITY  
OPPORTUNITY**

**FEBRUARY 13, 2002**



Chairwoman Roukema, Ranking Member Frank, Distinguished Members of the Committee:

Thank you for the opportunity to join you this morning to outline the proposed Fiscal Year 2003 Budget for the Department of Housing and Urban Development (HUD).

The \$31.5 billion HUD budget represents a funding level increase of 7 percent over FY 2002. By helping Americans reach the dream of homeownership, ensuring affordable housing opportunities for those who rent, strengthening and renewing communities, and preserving a safety net for the most vulnerable, this budget will enable HUD to make a tremendous difference in the lives of millions of Americans.

The housing market in 2001 was extremely vigorous, and we entered the new year with homeownership at a record high. Because we know that homeownership gives families a stake in their communities and creates wealth, the HUD budget makes owning a home a viable option for even more Americans. In his State of the Union Address, President Bush acknowledged our commitment to expanding homeownership – especially among minorities.

As a first step, we have quadrupled the American Dream Downpayment Fund, to \$200 million. This Presidential initiative will help an estimated 40,000 first-time homebuyers overcome the high down payment and closing costs that are significant obstacles to homeownership.

A Tax Credit for Developers of Single-Family Affordable Housing will promote homeownership opportunities among low-income households by supporting the rehabilitation or new construction of homes in low-income urban and rural neighborhoods.

We are tripling funding for the Self-Help Homeownership Opportunity Program (SHOP) to \$65 million, as committed to by the President last spring. That, and a lot of sweat equity, will make possible the construction of an additional 3,800 homes for disadvantaged Americans. SHOP is an excellent example of government maximizing its resources by working with private-sector partners like Habitat for Humanity.

Another exciting homeownership initiative targeted at low-income families will allow them to put up to a year's worth of their Section 8 rental voucher assistance toward a home down payment. And because we consider it an invaluable tool for prospective homebuyers and renters, we have proposed making housing counseling a separate program. The increase in sub-prime lending has made financial literacy more important than ever; armed with the facts, a consumer is far less likely to be victimized by predatory lending. We are funding the counseling program at \$35 million, which represents a \$15 million increase over the previous fiscal year.

While we consider homeownership to be an important goal, we recognize that it is not an option for everyone; therefore, our budget preserves HUD's commitment to

expanding the availability of affordable housing for the millions of Americans who rent their homes.

The Section 8 tenant-based program today assists nearly two million families; our budget provides an additional 34,000 housing vouchers. The budget also dedicates \$16.9 billion to protect current residents by renewing all expiring Section 8 contracts.

To encourage the production of moderate-income rental housing in underserved areas, we plan to reduce the mortgage insurance premium for Federal Housing Administration (FHA) multifamily insurance.

Three times over the last eight years, HUD has been forced to shut down our multifamily mortgage insurance programs because of lack of credit subsidy. Last year, the shutdown stopped the construction of some 30,000 rental units throughout the country and clouded developers in uncertainty.

We made a commitment at HUD to a comprehensive review of the credit subsidy program. We examined the statistical techniques that were used to analyze loan performance. We thoroughly updated and refined FHA's data and incorporated the major tax law changes in the 1980s that affected the profitability of multifamily housing. Through our review, we were able to lower premiums, create a self-sustaining program, provide the industry with stable financing at a much lower cost, and provide thousands of new opportunities for rental housing across the country.

In fact, the program made firm commitments to insure \$1.25 billion worth of new rental housing in just the first four months of the fiscal year. Reducing the premiums in FY 2003 will lower the cost of building over 50,000 affordable rental apartments each year.

The 2003 budget gives HUD new resources to further our mission of supporting the nation's most vulnerable. This includes low-income families, homeless men and women, the elderly, individuals with HIV/AIDS, victims of predatory lending practices, and families living in housing contaminated by lead-based paint.

Let me highlight just a few of our proposals.

To better coordinate the work of the many Federal agencies that reach out and provide a continuum of care to homeless men, women, and families, the budget calls for doubling HUD funding for the newly reactivated Interagency Council on the Homeless. Additionally, converting three competitive homeless assistance programs into a consolidated grant will eliminate the workload and expense of administering three separate programs. More importantly, it will give local jurisdictions new discretion in how those dollars are spent.

HUD's Lead Hazard Control program is the central element of the President's effort to eradicate childhood lead poisoning in ten years or less. The HUD budget will fund the program at \$126 million, a substantial increase over the previous year.

The budget also proposes spending \$251 million under HUD's Section 811 program to improve access to affordable housing for persons with disabilities. And many of the additional 34,000 Section 8 housing vouchers will aid non-elderly, disabled individuals.

In addition to addressing the nation's critical housing needs, programs such as the HOME Investment Partnerships Program and the Community Development Block Grant (CDBG) program stimulate economic development and job growth. Combined, these two programs will distribute an additional \$200 million in formula funding to State and local governments. We have proposed changing the distribution of CDBG formula funds by reducing the size of grants going to the wealthiest communities. This will help bring dollars into those areas where they can do the most good.

We are excited about a brand-new concept to address the large backlog of repair and modernization projects in public housing. The Public Housing Reinvestment Initiative represents a new way to leverage the value of public housing by allowing public housing authorities (PHAs) to borrow funds to make needed capital improvements. This project unlocks the value of public housing assets by allowing PHAs to convert public housing units to project-based vouchers. The PHAs can obtain loans by borrowing against individual properties – similar to private-sector real estate financing.

Innovative thinking like this represents a departure from the way things were done so often in the past – but being effective does not have to mean spending more money. Government works best when government serves as steward and facilitator... and measures success through results. By facilitating the involvement of new local partners, the Public Housing Reinvestment Initiative will breathe new life into public housing communities.

I am proud of our budget and the way it reflects HUD's renewed commitment to efficiency, accountability, and the principles of excellence expressed through the President's management scorecard. When government spends efficiently, the funds go much further. We reach more citizens. We help to change more lives.

The people of HUD know that the American Dream is not some unattainable goal, because we see it achieved every day, so often by families who never imagined owning their own home or reaching economic self-sufficiency. I am confident that through our budget – and the continued commitment of President Bush – HUD will be better able to offer citizens the tools that they can put to work improving their lives, and strengthening their communities and their country... as they travel the road to achieving their own American Dream.

I would like to thank each of you for your support of my efforts, and I welcome your guidance as we continue our work together on behalf of the American people.

Thank you.

## HOPE VI Demolition Funding

Question: Last year, a HOPE VI Demolition Funding Application for Brokenburr Trails, a site in my district, was denied. One of the primary reasons given by HUD as a basis for denial was that the Indianapolis Housing Agency (IHA) had not obtained demolition/disposition approval from HUD. A demolition/disposition application was submitted to HUD by the IHA in June 2001. The Strategic Assessment Center in Chicago signed off on the application in October. To date, the IHA has not received a formal approval letter from the Department of HUD.

The Administration has focused its efforts on decentralizing decision-making authority to regional and local levels to avoid "bureaucratic inefficiencies." What is HUD's position on requiring more than 6 months to issue a simple approval letter, and what can the Secretary do to ensure that Indianapolis gets its formal approval letter before the city is passed over in the next HOPE VI NOFA.

Answer: HUD evaluates a demolition approval application in accordance with Section 18 of the 1937 Housing Act. To assist PHAs in preparing a demolition approval application, HUD issued PIH Notice 99-19, "Demolition/Disposition Processing Requirements Under the New Law," on April 20, 1999. Once the HUD Special Application Center (SAC) receives a completed approval application along with all the necessary documents, on average, it completes the review and sends an approval letter within 100 days.

The fiscal year 2001 HOPE VI NOFA advised that PHAs must submit the demolition approval packet to the Special Applications Center by March 30, 2001 to ensure eligibility for HOPE VI funding. The SAC approved all the applications that met this deadline in time for the grant application deadline (July 10, 2001). However, the Indianapolis Housing Authority (IHA) did not submit its demolition approval application to the SAC until June 7, 2001. In addition, they did not submit all of the information required to obtain approval. Once the SAC received all the necessary information, it drafted the approval letter and mailed it on February 21, 2002. The IHA is eligible to apply for a fiscal year 2002 HOPE VI Demolition grant.

## HOPE VI Demolition Applications

Question: Are two applications, one for HOPE VI Demolition funding and one for demolition/disposition approval, really necessary?

Answer: First, the need for funding far outweighs the availability of HOPE VI Demolition grants. For example, in fiscal year 2001, applicants requested approximately \$140 million, but only \$75 million was available. The Department has placed a premium on readiness and established a priority for housing agencies that have already complied with Section 18 of the 1937 Housing Act and met all the legal requirements necessary to carry out demolition. Clearly, it is in the Department's interest to fund those housing agencies that are most ready to begin demolition. Second, HOPE VI Demolition grants are not the only source of funds to carry out the demolition of public housing units. PHAs may use several funding sources, such as the Capital Fund, Section 8 Earned Administrative Reserves, and public housing operating revenues.

## HOPE VI Demolition Applications

Question: Could the same thing be accomplished through one application?

Answer: Yes, but it would take longer to award the funds. Because housing agencies have already complied with all the legal requirements of Section 18, the process to review a grant application is much simpler. Applications are then reviewed to ensure they meet all the threshold requirements as established in the NOFA. HUD selects HOPE VI Demolition grant applications on a first come – first served basis, based on the date the application is received by HUD and the application's priority group as detailed in the NOFA document. In fiscal year 2001, for example, Priority Group 1 applications targeted units included in an approved Section 202 Mandatory Conversion Plan. Priority Group 2 applications targeted units included in a Section 202 Mandatory Conversion Plan that had been submitted to HUD or subject to the removal requirements of 24 CFR part 971. Priority Group 3 applications targeted units that were included in a HUD-approved application for demolition approval that was developed in accordance with section 18 of the 1937 Act. Priority Group 4 applications targeted units in a development that already had a HOPE VI Revitalization grant and needed additional funds to carry out demolition. In fiscal year 2001, funding reached all applicants in priority groups 1 and 2 and only 28 of the 41 applicants in priority group 3.

## HUD Staffing

Question: What is HUD doing to make sure that its regional and local offices are empowered to effectively conduct HUD business in the cities and towns where HUD staff live, work and share in the common interests and concerns of the community?

Answer: HUD staff are empowered to effectively conduct business in the field, including those cities and towns with local or Regional HUD offices. Locally developed management plans articulate the strategies developed by HUD managers and staff to accomplish national program goals in ways that best meet community needs. The local management plans are the collaborative work of each program area serving the local jurisdiction, developed under the leadership of the Field Office Director and the Regional Director.

The ability of local offices to effectively deliver program services to local jurisdictions has been further enhanced in two significant ways by the just completed realignment of the Office of Field Policy and Management (FPM). First, the FPM realignment shifted significant staff resources--approximately 330 field staff nationwide--to core program delivery operations, filling critical staffing needs identified by the program areas themselves. Second, additional operational management authority has been delegated to HUD's Regional Directors (authority which can be redelegated to local Field Office Directors). The new authorities empower the Regional and Field Office Directors to manage critical staffing and other resources with greater flexibility, the better to respond to local challenges and opportunities within their jurisdictions.

## Housing Authorities Subjection to Federal Court Orders

Question: The Federal District Court in the Southern District of Indiana has ordered the Indianapolis Housing Agency to affirmatively further housing opportunities for African Americans in the City's southern tier townships. The compliance efforts of the IHA with the desegregation case require substantial commitments of resources to develop both homeownership and rental housing opportunities. Failure to comply with the court order could result in findings of contempt of court being brought upon the IHA, bringing with the ruling punitive damages. The IRA presented a plan to provide for some of these housing opportunities as part of its FY01 HOPE VI Redevelopment Application, which was denied by HUD.

What is HUD's position on taking affirmative steps and making special efforts to assist housing authorities develop funding when they are subject to Federal Court orders?

Answer: HUD, of course, will be supportive of the implementation by housing authorities of federal court orders. However, this must be done within the funding and statutory context set by Congress.



Funding for Court-Order Desegregation Efforts

Question: Can funding sources be made available to housing authorities that must participate in desegregation efforts similar to those engaged in by the IHA?

Answer: The Quality Housing and Work Responsibility Act (QHWRA) of 1998 provided for the set-aside of up to 2 percent of Public Housing Capital and Operating Funds for emergencies and other disasters, and housing needs resulting from any settlement of litigation.

HOPE VI Preference for Court Orders

Question: What kind of preferences would you support that would award additional points to housing authorities subject to federal court orders in competitive grant applications like HOPE VI?

Answer: The Department would not support adding such preferences to the current NOFA process. HUD's annual appropriations acts contain a provision that states: "none of such [HOPE VI] funds shall be used directly or indirectly by granting competitive advantage in awards to settle litigation or pay judgments, unless expressly permitted herein." At this time the Department feels that the goals and objectives of the HOPE VI program are best maintained by the continued inclusion of this provision.

Funding Initiative to End Vestiges of Past Discrimination

Question: Would you support a special funding initiative that would be used to support cities and housing authorities in efforts to end the vestiges of past discrimination similar to the Indianapolis Housing Agency's efforts?

Answer: HUD has not included a specific funding initiative for a nationwide effort that mirrors the Indianapolis effort. Anti-discrimination activities are part and parcel of many of HUD's programs and would not support specific special initiative at this time.

## Assistance to Housing Authorities for Safe Environments for the Elderly

Question: HUD encourages housing residents to become involved in the safety and security of their communities with programs such as "resident patrol". Housing Authorities have developed programs where residents participate in community patrol and monitoring, and for their participation residents receive rent concessions or stipend payments. The programs are geared primarily to elderly communities and populations.

Problems have arisen in that the rules and requirements from other government agencies conflict with the intent of HUD programs. Rent concession and stipends count against residents as income for Social Security and Medicare benefits. If residents choose to participate in these programs, they stand to lose many of their benefits. Moreover, according to HUD guidelines, their rents would increase.

What assistance can you give to housing authorities in their efforts to create safe living environments for their elderly residents, especially given the termination of HUD's Drug Elimination Program?

Answer: HUD will provide an additional \$95 million in operating funds to be distributed proportionally to all housing authorities in accordance with the current interim formula for the Public Housing Operating Fund. These funds may be used at the discretion of the local agency for drug demand and supply reduction activities, including supplemental law enforcement and security services, crime prevention, strategies, and to assist in drug prevention, drug intervention, and drug treatment activities.

HUD's Office of Public and Indian Housing has initiated a number of initiatives to assist housing authorities in their efforts to promote partnerships and assist in the leveraging of resources to help support the continuation and expansion of crime prevention and community safety initiatives in and around public housing.

HUD recently unveiled two new resources available on the HUD's Community Safety and Conservation Division (CSCD) web page--[www.hud.gov/offices/pih/divisions/cscd](http://www.hud.gov/offices/pih/divisions/cscd)). The grants and funding page is a resource to assist housing agencies in identifying relevant funding opportunities to support components of a community-based safety and crime prevention strategy. It is by no means an all-inclusive list, but is designed to provide a sampling of resources available from the Federal agencies level and private funding sources. The page will be updated on a regular basis.

The resources page connects housing agencies with Federal, state and local governments and various private organizations that have been involved in a variety of efforts to reduce crime and drugs in communities throughout the United States. This list is not exhaustive, but rather contains key information and additional resources.

HUD also maintains a Phasafety List Serve at ([www.phasafety.org](http://www.phasafety.org)). It is free to enroll and serves as a means to exchange programmatic policy, statutory and regulatory information about resources and new opportunities for supporting community safety efforts.

Indian Housing

Question: Would you support the creation of income exemptions and rent disregards for residents participating in programs such as the IHA's resident patrol, that would protect participant's benefits from being adversely affected?

Answer: Current HUD regulations already permit public and assisted housing residents to receive an income exemption up to \$200 per month for resident service stipends. Such stipends are for part time resident services, including patrols. See 24 CFR 5.609 c(8)(iv).

## HUD Coordination with Other Federal Agencies

Question: What is HUD doing to ensure it is cooperating with other Federal agencies and that its programs are consistent or planned with appropriate exemptions to eliminate inconsistencies that damage the effectiveness of HUD programs from the start?

Answer: The Department reviews and comments on other agencies legislative proposal that may impact HUD programs. Problems of duplications with HUD programs or inconsistencies are reported to OMB for their resolution. In addition, proposed Federal Register Notices and Regulations are cleared centrally through OMB to ensure consistency with Administration policy and the work of other Federal agencies. HUD also participates in numerous interagency commissions, committees, and panels, as well as ad hoc communication with other Federal, State, and local entities to determine the best approach to program design to ensure roadblocks to program success are prevented wherever possible. For example, the Department works closely with the Department of Health and Human Services on the issue of access for disabled individuals to affordable housing, with the Department of Labor, the Internal Revenue Service to verify public housing tenant incomes for the purpose of accurately calculating subsidy levels, and the Department of Veterans Affairs in regards to homeless veterans. Finally, as part of the discussion on welfare reform reauthorization, the Administration is seeking the ability to have statutory and regulatory waivers where this is necessary to coordinate two programs in support of statutory program goals.

## Homelessness

Question: The HUD Budget proposal presents the goal of ending “chronic homelessness” in ten years. I am concerned that characterizing homelessness with a term primarily used to refer to medical conditions and disease will distort attempts to get at the root causes of homelessness, such as poverty and lack of affordable housing, which are economic and not medical in nature. Can you explain what the term “chronic” in chronic homelessness refers to?

Answer: The definition of “chronic”, when used in chronic homelessness, is not related to medical conditions but rather to the long duration or frequent recurrence of homelessness. HUD currently considers a person experiencing chronic homelessness to be an unaccompanied disabled person who has been continuously homeless for over one year or that has experienced frequent periods of episodic homelessness over several years. Because there is so much diversity among the populations that might be considered to be experiencing chronic homeless, HUD is using this as a working definition while continuing to examine the characteristics and needs of this group.



## Homelessness

Question: Is HUD's position that the causes of homelessness are not primarily economic in nature?

Answer: A significant percentage of all homeless persons can be assisted through the provision of affordable housing and improved economic opportunity. However, there is also a substantial percentage of homeless persons whose economic circumstances are directly linked to chronic mental illness, substance abuse or other disabling conditions. Among these individuals is a subgroup representing approximately 20 percent of the homeless population who are experiencing chronic or long term homelessness. These persons are considered disabled, as that term is defined under the McKinney-Vento Act, and cycle between life on the streets and in shelters and intermittent periods of housing.

The interaction of poverty, personal attributes, lack of affordable housing and inadequate health care coverage must be considered in addressing homelessness. Experts now agree that these complex problems must often be treated in conjunction with housing, primarily permanent housing, that is accompanied by support services, including counseling and therapy. It is HUD's intention to continue working with other agencies in the Federal Government to assist the chronically homeless with the services they need in order to enable HUD to concentrate on its core mission of providing housing for those in need.

Homelessness

Question: Is there terminology that more accurately reflects the reality of homeless people that HUD could employ when speaking about people who have a long experience of homelessness?

Answer: Please see previous responses.

## Shelter Plus Care Renewals

Question: In your budget proposal the Administration commits to end chronic homelessness in ten years. You reference the need to create some 200,000 units of permanent supportive housing, which is done via the Shelter Plus Care and Supportive Housing Programs. Yet your request does not contain enough money even to renew existing permanent supportive housing units (being short approximately \$93 million Shelter Plus Care, alone). How do you intend to renew these subsidies and make progress on your goal without cutting into other homeless funding at a time when homeless numbers seem to be going up?

Answer: HUD's request for funding in fiscal year 2003 does not include additional funds for Shelter Plus Care renewal projects expiring in fiscal year 2003 because the Congress provided funds for that purpose as part of the fiscal year 2002 appropriation.

HUD intends to request sufficient funding as part of the fiscal year 2004 request to fund those Shelter Plus Care projects expiring in fiscal year 2004. This appropriation should be passed in time for Shelter Plus Care renewal grants applying in the 2003 competition to receive noncompetitive awards that will be utilization in fiscal year 2004 and not decrease funds available for other homeless projects. In addition, HUD has been working with other agencies, especially HHS and VA, to open up access to their large, mainstream supportive service programs to homeless persons. These resources can effectively replace or supplement the resources now being used by HUD to pay these costs and permit a greater share of HUD's homeless resources to be used for housing.

## Interagency Council on the Homeless

Question: You indicated in your testimony that the Interagency Council on the Homeless will address the issue of funding services for homeless people. The Interagency Council on the Homeless is chaired by you and made up of the Secretaries of HHS and other agencies. HUD and HHS has been meeting over the past year to address this issue. Can you give us some details of the approach you and the members of the Council intend to take to address this problem?

Answer: The Interagency Council on the Homeless is operational again after seven years of dormancy due to discontinued funding in 1994. The Executive Director of the Council was sworn in last month and the work of the Council has recommenced. Fifty Federal programs administered by eight federal agencies provide services to the homeless people according to a recent GAO Study. Sixteen of those programs are specifically targeted to homeless people while 34 are non-targeted but may serve homeless people.

A first priority of the newly convened Council will be a review of all federal programs to determine strategies for future collaboration and coordination. Further, the Council's coordination efforts will explore means by which homeless people will gain better access to the non-targeted, mainstream programs.

## Public Housing Reinvestment and Financial Reform

Question: In his budget, President Bush proposes to make up for the cut in the Public Housing Capital Fund by changing some public housing buildings into something similar to the Section 8 program and allow housing authorities to use income from vouchers to obtain capital improvement loans. The President admits, however, that he still has to write the legislation necessary to make the program possible after that. Congress needs to pass the legislation into law and you, Mr. Secretary, will have to write regulations for the program. Does the President think all of that will happen this year in time for public housing to obtain financing to make up for the \$420 million cut you proposed in the 2003 budget?

Answer: The necessary legislation was contained as part of the President's budget proposal. It is Section 208 of the Administrative Provisions.

The proposed legislation is comprehensive and straightforward, using an existing program—project-based Section 8 vouchers—rather than creating a new program. HUD will be in a position to assist PHAs in structuring transactions, before implementation notices or regulations or to some extent, even the law, are finalized. HUD believes that a significant number of transactions can be completed during the time period fiscal year 2003 funds ordinarily would be committed. A number of PHAs have approached HUD already to begin planning in anticipation of the legislation passing.

## Public Housing Reinvestment and Financial Reform

Question: Public housing has \$22 billion backlog in capital repair needs. Does the President think that local housing authorities will be able to obtain financing for that backlog by cutting their capital budgets by \$420 million?

Answer: The proposed Public Housing Reinvestment Initiative can be a powerful financing mechanism to help PHAs fulfill their capital needs. If PHAs use the amounts within the national ceilings proposed for the Initiative in fiscal year 2003, they potentially could raise well over \$420 million.

The proposed Capital Fund appropriation amount takes into account a number of other factors, including amounts needed to meet newly accruing capital needs in fiscal year 2003. In addition, substantial funds have not yet been obligated or expended from prior year appropriations by PHAs.

Public Housing Reinvestment and Financial Reform

Question: The President's debt financing model will only be available to a few Local housing authorities, but every local housing authority will suffer a cut in the Public Housing Capital Fund. How are the authorities that cannot access the debt financing program supposed to pay for their backlog in repairs?

Answer: Many PHAs will be able to leverage substantial capital through the Public Housing Reinvestment Initiative. Without considering any leveraging, the proposed Capital Fund amount is sufficient to cover new capital needs accruing in fiscal 2003. In addition, substantial funds have not yet been obligated or expended from prior year appropriations by PHAs.

## Public Housing Reinvestment and Financial Reform

Question: One reason the President gives for justifying the \$420 million cut from the Public Housing Capital Fund is that public housing authorities aren't spending the \$6 billion that they already have. However, when this committee asked you at the time for proof of that charge, you didn't provide it. On the numerous occasions that the GAO has asked HUD for proof of that charge, HUD hasn't provided it to the GAO. As recently as February, our counterparts in the Senate asked you to finally prove that charge. Would you please provide the evidence that you have to back up your assertion on this point?

Answer: As of December 31, 2001, there were approximately \$5.5 billion in unexpended Capital Grant funds that were provided to PHAs. Included within this amount there were approximately \$3.2 billion Capital Fund Grant funds that remained unobligated by the PHAs. These balances are significant and justify a reduction in funding for fiscal year 2003. The Department will closely monitor obligations and expenditures and make appropriate budget proposals.



## Unexpended/Unobligated Balance

Question: Why would we believe that public housing authorities aren't spending their money fast enough?

Answer: The Quality Housing and Work Responsibility Act of 1998, as further defined in the fiscal year 2002 Appropriations Act required that at least 90 percent of Capital Funds be obligated within 24 months and expended within 4 years of being made available. In determining compliance with the statutory requirement, the Department recognized that some PHAs did not record their obligations in HUD's systems in a timely manner, as required. HUD performed an analysis of the inventory to determine which grants had not met the statutory obligation requirement. HUD then requested information from its Field Offices to determine whether, in fact, the obligated amount met the minimum 90 percent standard. HUD reviewed the information from its Field Offices regarding the percent of funds obligated in each grant as of September 30, 2001, determined the existence of a time extension or an original obligation date which was beyond the 24 month statutory obligation period, and the reason(s) for failure to obligate. HUD found that many PHAs had continued to obligate after September 30, 2001. In fairness to those that had previously requested and received time extensions that are not valid under QHWRA, HUD decided only to recapture those funds that remained unobligated as of March 22, 2002.

## Capital and Operating Grants

Question: Mr. Secretary, you've complained that local public housing authorities need to spend their capital and operating grants faster. The public housing authorities however, say that they can't spend the money because you haven't released the money in a timely fashion after it is appropriated. How long did it take for HUD to release money that Congress appropriated in 2000? Have you released the money that we appropriated last year?

Answer: The fiscal year 2000 HUD Appropriations Act was signed into law on October 20, 1999. The 2000 funds for the Public Housing Capital Funds were distributed by formula in June 2000. Funds are executed to PHAs based on a formula, but before funds are distributed, the PHAs must submit plans to HUD for approval on the usage of these funds. These plans are due after the end of PHA's fiscal year. Often plans are due before HUD has executed the formula, therefore, the estimated amount in the plans may vary from the actual amount. Executing the formula in the 3<sup>rd</sup> quarter of Federal fiscal year did not provide PHAs enough time to submit revised funding plans. Fiscal year 2000 was the first year HUD executed a new formula developed during negotiated rulemaking. The fiscal year 2001 formula was distributed in March 2001.

The Public Housing Operating Fund monies for fiscal year 2000 were distributed to PHAs throughout their respective fiscal years as follows: 1<sup>st</sup> quarter funding was distributed December 1999; 2<sup>nd</sup> quarter funding was distributed in February 2000; 3<sup>rd</sup> quarter funding was distributed in April 2000; and 4<sup>th</sup> quarter funding was distributed in July 2000. Funds appropriated in 2001 for the Public Housing Operating Fund were distributed to the PHAs by letters of intent due to the fact that a new formula, which was developed during negotiated rulemaking, was not yet in place at the time the funds were appropriated and ready to be made available to the PHAs. Operating subsidies, unlike funds distributed by formula under the Public Housing Capital Fund, are provided to PHAs on the basis of their respective fiscal years, and thus funds are distributed throughout the year in that fashion. Due to the utilization of the letter of intent process, not all of the 2001 funds have been distributed to the PHAs, especially those PHAs whose fiscal year is in the 4<sup>th</sup> quarter.

## Unexpended/Unobligated Balance

Question: In 1998, Congress looked at all the things that public housing has to do to obligate and spend federal grants to make repairs to their building public hearings, local and state mandated bidding and procurement processes and a wait of up to a year to receive funds from HUD before they can do anything and, as part of massive reform of public housing, decided that local public housing authorities need two years to obligate funds and four to spend them. In July 1999, however, HUD informed PHAs that "Notwithstanding the provisions of part 9(j) of the Housing Act of 1937 (USHA), HUD will still require PHAs to notify the public and HUD if they expect the obligation time frame to exceed 18 months." Tell me, on what authority can HUD require something different than what Congress has specifically mandated?

Answer: The Department has consistently recommended a benchmark of 18 months for obligation of a Capital Fund grant. We recognize, as we have clearly stated in numerous notices that this guideline or benchmark is neither statutory nor regulatory. It is, however, a prudent business practice in project management to set time benchmarks that have some cushion to assure timely completion. This is particularly important in this case where housing agencies are faced with strict statutory deadlines with only limited provision for extension. In this connection, the Department made both the benchmarks and statutory limits known to housing agencies as is illustrated from the following extract from HUD Notice PIH 2001-26 (PHA):

"...In accordance with Section 9(j) of the United States Housing Act of 1937, PHAs must obligate funds not later than 24 months and expend funds not later than 4 years after the date on which funds become available to the PHA for obligation. Until the CFP [Capital Fund Program] final rule is published, PHAs must meet benchmarks established under existing program guidelines, which require earlier obligation and expenditure deadlines to ensure compliance with the Act. The benchmarks require PHAs to obligate funds within 18 months and to expend within 3 years after funds are made available for obligation..."

## Effective Public Housing

Question: The President designated Public Housing as “ineffective” in his budget. This country’s press corp has a different view. The Boston globe reported that the Boston Housing Authority used a HUD grant to make its most troublesome housing project, Mission Main, into “the development [that] offers sparkling housing”. The Seattle Times wondered if the Seattle Housing Authority’s HOPE VI project, NewHolly, was the hottest development to hit Seattle’s soaring real estate market. Is the President aware of what the press has been saying about public housing around the country?

Answer: We are aware that there are numerous examples of successful Public Housing across the nation. Unfortunately, the number of examples such as those cited is far too infrequent (Boston’s Mission Main was awarded in 1993, and Seattle’s Holly Park began in 1995) to justify a different designation by the President. The President’s 2003 Budget reflects many new initiatives being taken by HUD to improve PHA performance and reward high performing PHAs such as those you note above.

## Anti-Crime Initiatives to the Department of Justice

Question: The President continues to eliminate funding for the Public Housing Drug Elimination Grant program (PHOEP) from his budget, arguing that crime in public housing could be best handled by Justice Department programs. Have you, Mr. Secretary, or the President tracked the success of switching public housing anti-crime initiatives to the Department of Justice? Has the Department of Justice's appropriate focus on the war on terrorism hampered its ability to address crime in public housing?

Answer: No, the Department does not track the success of switching public housing anti-crime initiatives to the Department of Justice (DOJ) because it is a new initiative mandated by Congress to provide Weed and Seed funding to assist public, Indian and Federally-assisted housing developments. However, the Department is currently working on entering in an Interagency Agreement with DOJ. This agreement will consist of the Weed and Seed strategy, which is designed to be comprehensive and provide drug and crime prevention assistance in communities on a national, state and local level. This agreement will ensure that public safety in public housing is addressed. The Department will continue to work closely with DOJ to promote comprehensive community based strategies to address drugs and drug related crime with and around low-income communities.

Programs Undertaken Since Termination of Public Housing Drug Elimination Program

Question: Can you identify for us specific programs undertaken by the Department to ameliorate crime and drugs in public housing since the elimination of PHDEP funding?

Answer: The Department has continued to work with other agencies to address crime and drugs in public housing. Through an Interagency agreement with the Department of Justice, Executive Office of Weed and Seed, HUD has provided public, Indian, and Federally assisted housing developments assistance in the investigation, prosecution, and prevention of violent crimes and drug offenses. The Weed and Seed program will address those areas in public, Indian, and Federally assisted housing where additional resources are necessary to augment State and local efforts to effectively fight crime and drugs. Operation Weed and Seed is a community-based initiative that encompasses an innovative and comprehensive multi-agency approach to law enforcement, crime prevention, and community revitalization.

The Department will continue to develop partnerships and collaborative efforts to combat crime and drug related activity in public housing. The Department provides a web-based One Stop Funding Resource Center for housing authorities and Federally assisted housing developments. This website provides public housing authorities with information on Federal, state and local government resources and various private organizations and foundations that have been involved in a variety of efforts to reduce crime and drugs in communities throughout the United States. The purpose of the website is to connect owners and managers of assisted housing with the current knowledge in the area of community crime and drug prevention available.

Another example of collaborative efforts is the Department's work with Boys and Girls Clubs of America. The Department and Boys and Girls Clubs of America are working to provide technical assistance, operating and start up costs, and guidance to new and existing Boys and Girls Clubs that locate clubs in or near, and primarily serve public housing and Indian housing.

#### Unspent Drug Elimination Grant Funds

Question: Last year, I asked you to identify specific housing authorities that mismanaged their PHDEP program. You failed to and I would offer you another opportunity to do so. HUD's chief of staff has since asserted that PHDEP funds, previously obligated for specific authorities, remains unspent. Will you identify specific authorities that failed to spend their PHDEP funds?

Answer: 24 CFR Part 761 stipulates that all PHDEP grant funds must be expended within 24 months. Twenty-five percent of funds must be expended within the first year. All remaining funds at the end of a grantee's period of performance are in danger of being recaptured.

#### **PHAs having mismanaged their PHDEP Program**

Attachment A lists those housing authorities that were cited in an audit conducted by HUD's Office of Inspector General as either having inadequate controls to properly monitor and evaluate program results and/or having spent PHDEP funds on ineligible activities. A brief characterization of each finding is noted for each housing authority.

#### **PHAs that have failed to spend fiscal years 1997-2000 PHDEP Funds**

Attachment B shows a total of 30 public housing authorities that have failed to spend their fiscal years 1997-1999 PHDEP funds representing over \$1.4 million according to regulatory requirements.

Attachment C identifies 30 housing authorities that failed to spend 25 percent of their fiscal year 2000 PHDEP funds within the first fiscal year according to the regulatory requirements of the program.

HUD is continuing to track spending and monitor closely the performance of the PHDEP grantees. Working through its field offices, HUD provides guidance to housing authority grantees on regulatory expenditure requirements. Those housing authorities that persist in delaying full implementation of their grants will be notified that the outstanding funds are subject to recapture.

**Attachment A**

**HA City of Sarasota, FL**

- Lack of necessary controls to properly monitor, evaluate, and report program results.
- Spent \$37,891 on Ineligible Activities and Allowed Grant to Expire

**HA City of Pittsburgh, PA**

- The Authority Needs to Improve Administration of It's Drug Elimination Program

**Metropolitan-Dade Housing Authority, Miami, FL**

- Agency lacked necessary controls over its PHDEP Grants
- Agency Spent \$601,841 on ineligible and unsupported activities

**Buffalo Municipal Housing Authority, Buffalo, NY**

- BMHA did not provide adequate accountability over PHDEP expenditures
- The BMHA has not established adequate procedures to monitor and evaluate activities of its PHDEP

**Luzerne County Housing Authority, Kingston, PA**

- Administration of the PHDEP requires improvement
- Ineligible costs paid from operating funds
- Various components of LCHA internal controls require improvement
- The 1995 PHMAP Certification was not supported

**Holyoke Housing Authority, Holyoke, MA**

- PHA needs to establish and implement controls over the effectiveness and performance of its PHDEP

**City of Woonsocket Housing Authority, Woonsocket, RI**

- PHA needs to improve administration its Drug Elimination Program
- PHA charged costs of \$74,455 to the Drug Elimination Program which appear to be ineligible

**New Haven, Connecticut Public Housing Authority, New Haven, CT**

- PHA lacks accountability for \$ 950,000 in enhanced police service charges



**Housing Authority of the City of Meridian, Meridian, MS**

- The Authority improperly charged grant funds for expenditure that were not adequately supported
- The Authority improperly spent grant funds on its After School Youth Development Program
- Controls over procurement needed improvement

**Peoria Housing Authority, Peoria, IL**

- Computer Equipment Purchased with grant funds was not used for its intended purposes

**Housing Authority of the City of San Antonio, San Antonio, TX**

- Authority needs to evaluate grant effectiveness and improve grant administration
- Authority needs to improve its fiscal administration of the program

**Housing Authority of St. James Parish, Litcher, Louisiana**

- Authority has not properly managed its grant program

**Multi-District Audit**

- Grantees need to ensure better administration and accountability of public housing drug elimination funds
- HUD needs reliable data to measure the effectiveness of the Public Housing Drug Elimination Program.

## Revision to CDBG Formula

Question: In your budget submission, you propose to reduce funding for CDBG-eligible communities whose per capita income is twice the national average and redistribute the money by formula among other communities. No communities receive CDBG money unless they are able to demonstrate that the benefits of the funding will accrue to population eligible under the CDBG statute. Are you proposing to punish higher-income communities for their efforts at economic diversity or foster economic segregation?

Answer: The Department's proposed budget for fiscal year 2003 requests \$4.436 billion in budget authority for the formula CDBG program to address locally identified community and economic development needs. Although the CDBG program allocates funds by formula in a way that targets most funds to our neediest communities, the current formula distribution of these funds also provides for grants to higher-income communities. Because of the great disparity in per capita income among our grantees, the budget proposal seeks to re-evaluate the method of allocating the limited resources of the CDBG program.

A legislative change has been proposed for fiscal year 2003 to reduce, by 50 percent, the amount of the grant to the wealthiest one percent of eligible grantee communities. The wealthiest communities would be defined as those with per capita income equal to, or greater than, two times the national average. It must be noted that this proposed legislative change is intended to further target limited CDBG funds to the neediest communities. The funds captured by the 50 percent reduction would become available to other entitlement communities with lower per capita income. If this proposal is enacted, the Department will use data on per capita income from the 2000 Census to identify the communities whose funding would be reduced.

This proposal is not about punishing higher income communities or fostering economic segregation. This is about shifting limited resources from wealthy communities to less wealthy communities. These wealthy communities would still receive funds.

The PHDEP period of performance is up to 24 months. Therefore, all PHDEP grants issued prior to 1999 should have expended the total contract amount. The following housing authorities are not in compliance.

State	Congressional District	HA Code	HA Name	PHDEP Grant	PHDEP Contract Amount	PHDEP Amount Disbursed	PHDEP Grant Remaining	% Funds Remaining
Indiana	10	IN017	Indianapolis Housing Agency	IN36DEP017 0197	\$652,080.00	\$347,007.60	\$305,072.20	47%
Georgia	7	GA102	Rockmart Housing Authority	GA06DEP10 20197	\$50,000.00	\$38,443.94	\$11,556.06	23%
New York	3	NY023	Freeport Housing Authority	NY01DEP02 30197	\$180,500.00	\$148,657.82	\$31,842.18	18%
Massachusetts	4	MA033	Brookline Housing Authority	MA01DEP03 30197	\$217,900.00	\$195,652.17	\$22,247.83	10%
Georgia	7	GA116	Carrollton Housing Authority	GA06DEP11 60197	\$84,000.00	\$79,800.00	\$4,200.00	5%
Alabama	3	AL178	Dadeville Housing Authority	AL09DEP178 0199	\$25,000.00	\$0.00	\$25,000.00	100%
Georgia	7	GA116	Carrollton Housing Authority	GA06DEP11 60199	\$61,583.00	\$0.00	\$61,583.00	100%
New York	19	NY057	Greenburgh Housing Authority	NY36DEP05 70199	\$25,293.00	\$0.00	\$25,293.00	100%
Ohio	18	OH037	Coshocton Metropolitan Housing Authority	OH16DEP03 70199	\$28,812.00	\$0.00	\$28,812.00	100%
Massachusetts	4	MA033	Brookline Housing Authority	MA06DEP03 30199	\$96,114.00	\$10,535.24	\$85,578.76	89%
Michigan	11	MI055	Livonia Housing Commission	MI28DEP055 0199	\$38,920.00	\$4,905.61	\$34,023.39	87%

The PHDEP period of performance is up to 24 months. Therefore, all PHDEP grants issued prior to 1999 should have expended the total contract amount. The following housing authorities are not in compliance.

State	Congressional District	HA Code	HA Name	PHDEP Grant	PHDEP Contract Amount	PHDEP Amount Disbursed	PHDEP Grant Remaining	% Funds Remaining
Wisconsin	8	WI074	Green Bay Housing Authority	WI39DEP074 0199	\$44,868.00	\$8,646.00	\$36,222.00   1999	81%
New York	3	NY069	Glen Cove Housing Authority	NY36DEP06 90199	\$54,985.00	\$12,000.00	\$42,985.00   1999	78%
Nebraska	1	NE002	Lincoln Housing Authority	NE26DEP00 20199	\$70,381.00	\$18,723.47	\$51,657.53   1999	73%
Indiana	10	IN017	Indianapolis Housing Agency	IN36DEP017 0199	\$506,743.00	\$160,959.40	\$345,783.60   1999	68%
Alabama	3	AL172	Tallassee Housing Authority	AL09DEP172 0199	\$25,000.00	\$9,260.43	\$15,739.57   1999	63%
Alabama	3	AL199	Valley Housing Authority	AL09DEP199 0199	\$25,000.00	\$11,899.09	\$13,100.91   1999	52%
Alabama	5	AL167	Stevenson Housing Authority	AL09DEP167 0199	\$25,000.00	\$13,983.78	\$11,016.22   1999	44%
Alabama	4	AL064	Carbon Hill Housing Authority	AL09DEP064 0199	\$25,000.00	\$15,598.49	\$9,401.51   1999	38%
Alabama	3	AL114	Lineville Housing Authority	AL09DEP114 0199	\$42,009.00	\$26,724.78	\$15,284.22   1999	36%
Alabama	3	AL050	Auburn Housing Authority	AL09DEP050 0199	\$95,821.00	\$69,276.89	\$26,544.11   1999	28%
Alabama	3	AL160	Tuskegee Housing Authority	AL09DEP160 0199	\$90,835.00	\$69,977.66	\$20,857.34   1999	23%

The PHDEP period of performance is up to 24 months. Therefore, all PHDEP grants issued prior to 1999 should have expended the total contract amount. The following housing authorities are not in compliance.

State	Congressional District	HA Code	HA Name	PHDEP Grant	PHDEP Contract Amount	PHDEP Amount Disbursed	PHDEP Grant Remaining	% Funds Remaining
North Carolina	12	NC003	Charlotte Housing Authority	NC19DEP00 30199	\$773,751.00	\$804,900.87	\$168,820.13 1999	22%
New Hampshire	1	NH007	Laconia Housing & Redevelopment Authority	NH96DEP00 70199	\$25,000.00	\$21,000.00	\$4,000.00 1999	16%
North Carolina	4	NC046	Chapel Hill Housing Authority	NC19DEP04 80199	\$73,900.00	\$64,587.73	\$9,312.27 1999	13%
West Virginia	1	WV027	Clarksburg Housing Authority	WV15DEP02 70199	\$71,041.00	\$66,250.93	\$4,790.07 1999	7%
Michigan	8	MI058	Lansing Housing Commission	MI33DEP058 0199	\$206,744.00	\$199,933.16	\$6,810.84 1999	3%
Alabama	3	AL122	Childersburg Housing Authority	AL09DEP122 0199	\$41,789.00	\$40,471.69	\$1,317.31 1999	3%
Ohio	7	OH021	Springfield Metropolitan Housing Authority	OH16DEP02 10199	\$195,527.00	\$191,174.66	\$4,352.34 1999	2%
North Carolina	12	NC013	Durham Housing Authority	NC19DEP01 30199	\$467,593.00	\$464,252.12	\$3,340.88 1999	1%

TOTAL  
UNSPENT: \$1,426,644.27

PHDEP grants must expend 25% within the first year. The following PHDEP 2000 grants have spent less than 25% of the contract (have more than 75% funds remaining) and therefore are not in compliance.

State	Congressional District	FA Name	PHDEP Grant	PHDEP Contract Amount	PHDEP Amount Disbursed	PHDEP Grant Remaining	% Funds Remaining	Dollar Amount Remaining above 25% threshold
Alabama	3	AL160 Tuskegee Housing Authority	AL09DEP16001	\$94,669.00	\$0.00	\$94,669.00	100%	\$ 23,667.25
Alabama	3	AL178 Dadeville Housing Authority	AL09DEP17801	\$25,000.00	\$0.00	\$25,000.00	100%	\$ 6,250.00
Alabama	3	AL199 Valley Housing Authority	AL09DEP19901	\$25,000.00	\$0.00	\$25,000.00	100%	\$ 6,250.00
Alabama	3	AL114 Lineville Housing Authority	AL09DEP11401	\$43,782.00	\$0.00	\$43,782.00	100%	\$ 10,945.50
Alabama	3	AL172 Tallapoosa Housing Authority	AL09DEP17201	\$25,000.00	\$0.00	\$25,000.00	100%	\$ 6,250.00
Alabama	4	AL064 Carbon Hill Housing Authority	AL09DEP06401	\$25,215.00	\$0.00	\$25,215.00	100%	\$ 6,303.75
Alabama	5	AL182 Trifana Housing Authority	AL09DEP18201	\$12,000.00	\$0.00	\$12,000.00	100%	\$ 3,000.00
Georgia	7	GA116 Carrollton Housing Authority	GA09DEP11601	\$64,182.00	\$0.00	\$64,182.00	100%	\$ 16,045.50
Massachusetts	4	MA033 Brookline Housing Authority	MA09DEP03301	\$100,170.00	\$0.00	\$100,170.00	100%	\$ 25,042.50
New York	3	NY069 Glen Cove Housing Authority	NY39DEP06901	\$57,395.00	\$0.00	\$57,395.00	100%	\$ 14,326.25
New York	19	NY057 Greenburgh Housing Authority	NY39DEP05701	\$26,361.00	\$0.00	\$26,361.00	100%	\$ 6,590.25
North Carolina	12	NC003 Charlotte Housing Authority	NC19DEP00301	\$866,407.00	\$0.00	\$866,407.00	100%	\$ 201,601.75

PHDEP grants must expend 25% within the first year. The following PHDEP 2000 grants have spent less than 25% of the contract (have more than 75% funds remaining) and therefore are not in compliance.

State	Congressional District	City/County	Agency Name	PHDEP Grant #	PHDEP Contract Amount	PHDEP Amount Disbursed	PHDEP % of Contract Disbursed	PHDEP % of Contract Remaining	PHDEP % of Funds Remaining	Dollar amount remaining above 25% threshold
Ohio	18	OH037	Cochecton Metropolitan Housing Authority	OH16DEP0370100	\$30,028.00	\$0.00	0%	100%	100%	\$ 7,507.00
Wisconsin	8	WI074	Green Bay Housing Authority	WI39DEP0740100	\$46,762.00	\$0.00	0%	100%	100%	\$ 11,690.50
Alabama	3	AL050	Auburn Housing Authority	AL09DEP0500100	\$73,810.00	\$865.56	1%	99%	99%	\$ 17,389.70
Alabama	3	AL057	Sylacauga Housing Authority	AL09DEP0570100	\$143,494.00	\$1,791.16	1%	99%	99%	\$ 33,656.91
Alabama	6	AL001	Birmingham Housing Authority	AL09DEP0010100	\$1,467,257.00	\$34,946.42	2%	98%	98%	\$ 323,970.78
Kentucky	3	KY105	Authority of Jefferson County	KY39DEP1050100	\$85,701.00	\$1,332.13	1%	99%	99%	\$ 12,291.95
Alabama	5	AL090	Russellville Housing Authority	AL09DEP0900100	\$47,808.00	\$1,895.35	4%	96%	96%	\$ 6,681.63
Alabama	5	AL167	Stevenson Housing Authority	AL09DEP1670100	\$25,000.00	\$1,116.00	4%	96%	96%	\$ 4,904.62
Alabama	3	AL159	Lafayette Housing Authority	AL09DEP1590100	\$25,000.00	\$1,216.82	5%	95%	95%	\$ 4,788.20
New Hampshire	1	NH001	Manchester Housing Authority	NH38DEP0010100	\$273,022.00	\$18,725.00	7%	93%	93%	\$ 46,133.49
California	41	CA009	Upland Housing Authority	CA19DEP0090100	\$25,000.00	\$2,461.50	10%	90%	90%	\$ 3,415.46
Alabama	3	AL110	Piedmont Housing Authority	AL09DEP1100100	\$48,866.00	\$5,652.37	12%	88%	88%	\$ 5,484.18





## Housing Counseling Effectiveness

Question: You have a down payment assistance program here in the budget. Without talking about the effectiveness of your proposals can you tell me your views on the importance of counseling before buying a house? Are you aware of the studies that suggest that with real counseling, default rates drop precipitously?

Answer: Pre-purchase counseling is critically important to help first-time homebuyers evaluate their readiness, to understand their financing options, and to navigate what can be an extremely confusing and risky process. Quality pre-purchase counseling is one of the most cost-effective ways to help unwary borrowers avoid inflated appraisals, unreasonably high interest rates, unaffordable repayment terms, and other conditions that can result in a loss of equity, increased debt, default, and even foreclosure.

Freddie Mac produced a piece of research last year – *A little Knowledge is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling* - that clearly demonstrates that pre-purchase counseling improves loan performance. Specifically, the research finds that borrowers receiving individual pre-purchase counseling experience a 34 percent reduction in 90-day delinquency rates.

In addition, recognizing that housing counseling has many benefits including increasing national homeownership and minority homeownership rates, the fiscal year 2003 budget requests an increase from \$20 million to \$35 million for a separate housing counseling account.

## Appraisal Quality Assessments

Question: By many accounts, the Appraisal Quality Assessments (AQA) coordinated by the Real Estate Assessment Center (REAC) have all but come to a halt within the past few weeks. Recognizing the need to maintain a Roster of Fully Qualified HUD Approved Appraisers free of those failing to meet HUD Required Standards, what funds are being budgeted for Appraisal Reviews, Monitoring of HUD Approved Appraisers and Education of HUD Approved Appraisers and Reviewers?

Answer: The Department continues to target appraisers for field review. These reviews are performed by licensed HUD staff and licensed contractors. Approximately \$400,000 have been allotted to fully perform HUD required monitoring and field review activities. As in the past, HUD does not provide training to appraisers. Training on HUD's appraisal policies and practices is offered through Professional Appraisal Organizations on an on-going basis nationwide.

## Appraisal Handbook

Question: In 1998 a crucial HUD Handbook for Appraisers was updated (the 4150.2 - Valuation Analysis for Home Mortgage Insurance for Single Family One-to Four-Unit Dwellings). By HUDs own admission, and evidenced by an ever changing list of Frequently Asked Questions and Corrections on HUDs own websites, this Handbook is rife with errors and in need of serious revision and clarification. Will HUD be including budget funds to publish a revised edition?

Answer: In 1999, HUD updated its appraisal handbook for single-family. The previous handbook had not been updated in 9 years. This new handbook incorporated 9 years of legislation, regulations and guidance affecting the appraisals requirements of FHA single family mortgages. As a result of this updated document, a few of the 26,000 FHA roster appraisers and the 10,000 mortgagees asked questions pertaining to the handbook. For their convenience and other interested parties, the Department will maintain a list so all program participants will have access to all posed questions and answers. The Department will continue to update the handbook as required.

Appraisal Professionals

Question: I would also like further clarification on whether HUD will seek input from Professional Appraisal Organizations and Practitioners in developing the revision to ensure Appraisers have an authoritative reference in order to provide HUD with the high quality and detailed appraisals they require?

Answer: The Department has staff that are licensed professionals in the appraisal industry that provide support in the development of all guidance. In addition, the Department is a voting member in good standing on the Appraisal Subcommittee of the Federal Financial Institutions Examination Council (ASC) and The Appraisal Foundation Advisory Council (TAFAC). Participation in these organizations allows HUD to gain first hand knowledge of the industry's concerns and needs in this area.

## Public Housing Reinvestment and Financial Reform

Question: With the movement toward privatizing public housing, what safeguards would be put in place to ensure that private developers do not cherry pick housing units and leave others to simply continue deterioration and disrepair.

Answer: The President's proposal is not a proposal to privatize public housing. It is a voluntary proposal under which housing authorities could choose to leverage additional capital funds by converting public housing subsidies to project-based vouchers and borrowing funds on an individual property basis. PHAs could and typically would retain ownership control. Any proposal to have any owner other than a PHA-controlled owner would be subject to approval under HUD's public housing disposition rules, and each transaction is subject to HUD approval in any event.

## Section 8 Vouchers

Question: What is also being done to make Section 8 vouchers more attractive as a means of dealing with affordable housing in high cost housing markets?

Answer: HUD has implemented a new Fair Market Rent (FMR) policy to provide substantial targeted relief to high cost areas where low FMRs are preventing families from successfully using Section 8 housing vouchers. HUD sets FMRs either at the 40<sup>th</sup> percentile rent or at the 50<sup>th</sup> percentile rent. For most areas, the FMR is set at the 40<sup>th</sup> percentile rent—that is, the rent charged for units in the bottom 40 percent of standard rental housing in the market. For high cost areas, the FMR is set at the 50<sup>th</sup> percentile rent—that is, the median rent—the rent charged for units in the bottom half of the rental market. (Higher 50<sup>th</sup> percentile FMRs were first implemented in January 2001.) The increase in the fiscal year 2002 FMRs was almost double the amount of increase in recent years—on average 5.1 percent more than the previous year's FMRs.

HUD also published a new regulation that allows any PHA that is not in an area covered by a 50<sup>th</sup> percentile FMR to request HUD approval of higher "success rate payment standard amounts" based on the 50<sup>th</sup> percentile rent. (Certain PHAs with low voucher-holder success rates in leasing housing have been able to request approval for higher "success rate payment standards amounts" since December 2000.)

In addition, HUD field offices, at the request of a PHA, may authorize PHAs to establish exception payment standards from 110 percent to 120 percent of the applicable published FMR for a designated part of the FMR area for all units or for all units of a given unit size leased in a designated exception area.

Finally, the Assistant Secretary for Public and Indian Housing may approve exception payment standards that exceed 120 percent of the applicable published FMR. Such exception payment standards may be authorized for the total area of a county, or PHA jurisdiction, or place for a program-related reason.

## Colonias/Communities

Question: Secretary Martinez, I noticed in the President's Budget there is an initiative on page 175 that calls for a fifty percent cut to Westchester County, New York's Community Development Block Grant funding level to fund the Colonias communities within 150 miles of the U.S. Mexican Border. While I agree the Colonias communities need help could we work together to find a different source of funding?

Answer: The Department's proposed budget for fiscal year 2003 requests \$4.436 billion in budget authority for the formula CDBG program to address locally identified community and economic development needs. Although the CDBG program allocates funds by formula in a way that targets most funds to our neediest communities, the current formula distribution of these funds also provides grants to higher-income communities. Because of the great disparity in per capita income among our grantees, the budget proposal seeks to re-evaluate the method of allocating the limited resources of the CDBG program.

A legislative change has been proposed for fiscal year 2003 to reduce by 50 percent, the amount of the grant to the wealthiest 1 percent of eligible grantee communities. The wealthiest communities would be defined as those with per capita income equal to, or greater than, two times the national average. It must be noted that this proposed legislative change is intended to further target limited CDBG funds to the neediest communities. If this proposal is enacted, the Department will use data on per capita income from the 2000 Census to identify the communities whose funding would be reduced.

The funds captured by the 50 percent reduction would become available to other entitlement communities with lower per capita incomes and would not directly fund the Colonias Gateway Initiative. However, the savings achieved by this movement of funds to more needy communities would create room in the budget to provide resources for the Colonias Gateway Initiative, which is designed to serve some of the poorest communities in the nation.

Ms. Kelly #2

Administration Position on the Community Service Requirement of the Quality Housing and Work Responsibility Act of 1998

Question: Secretary Martinez, what is the Administration's position on the Community Service Requirements for Public Housing Authorities which were added by section 512(a) of the Quality Housing and Work Responsibility Act of 1998?

Answer: The goal of fostering self-sufficiency is central to HUD's mission and is recognized by the Administration as an important aspect, and the desired end, of welfare reform. In addition, section 512(a) is consistent with the Administration's proposals to strengthen the work requirements of the 1996 welfare reform legislation. Therefore, the Department supports the Community Service Requirements for Public Housing Authorities, which requires each adult resident of a public housing project, except for those exceptions noted, complete 8 hours a month of community service or participate for 8 hours a month in an economic self-sufficiency program as a requirement of continued residence. Further, the Department believes that any issue related to implementing the requirement can be resolved by regulation.



Implementation of the Section 512 (A) Provision

Question: If a Member of Congress were to offer an amendment to the FY 2003 VA-HUD Appropriations Bill to defund the implementation of the section 512(a) provision would you support or oppose that amendment?

Answer: HUD would oppose such an amendment. The Department believes that section 512(a) serves an important function in promoting self-sufficiency among public housing residents. Section 512(a) is also consistent with the broader Administration efforts to strengthen the work requirements of the ongoing welfare reforms.

## Shelter Plus Care Renewals

Question: I am seeking further clarification to your response to my question regarding renewal of expiring Shelter Plus Care grants.

The cost of renewing expiring Shelter Plus Care grants is estimated to be around \$195 million for the fiscal year 2003 Continuum of Care cycle, an amount which is \$95 million more than what is needed in the prior year. Yet, your budget proposes funding of only \$1.13 billion for the "Homeless Assistance Grants" account, roughly the *same* level as in fiscal year 2002.

Please indicate clearly whether or not your budget request for \$1.130 billion for the homeless account is expected to be used to fund renewals of expiring Shelter Plus Care grants in conjunction with the fiscal year 2003 Continuum of Care cycle.

Answer: The budget request of \$1.130 billion is not expected to be used to fund renewals of expiring Shelter Plus Care grants in conjunction with the fiscal year 2003 Continuum of Care cycle. We plan to request additional funds for the renewal of expiring Shelter Plus Care grants in the fiscal year 2004 appropriation.

## Shelter Plus Care Renewals

Question: Secondly, if the answer is that the \$1.130 billion does include funding for such renewals, then since renewal needs are some \$95 million higher than last year, your budget reflects an effective cut in homeless funding of \$95 million compared to last year. Please reconcile this cut with your commitment to end chronic homelessness in the next decade?

Answer: As stated in response to the previous question, the fiscal year 2003 budget request does not include funding for Shelter Plus Care renewal projects expiring in 2003 since the fiscal year 2002 Appropriation included \$100 million for funding these projects. The \$195 million refers to projects expiring in 2004. It is HUD's intention to request this funding as part of the fiscal year 2004 budget. There is no reduction in homeless grant funding in the fiscal year 2003 budget.

## Shelter Plus Care Renewals

Question: Alternatively, if your budget does not include funding for Shelter Plus Care renewals, please explain where and when such funding is expected to be provided? If the answer is that renewals will be provided in the FY 2004 appropriations bill, explain how HUD will evaluate FY 2003 continuum of care applications in the summer and early fall of 2003, since such applications would be evaluated prior to enactment of the FY 2004 appropriations bill, and therefore, without knowing how much money is available.

Answer: Although HUD will not know during the fiscal year 2003 competition how much money will be available to fund Shelter Plus Care renewals expiring in fiscal year 2004, the Department will structure the competition in a similar manner to the fiscal year 2002 competition. Shelter Plus Care renewal projects would be placed at the bottom of the Continuum of Care application priority chart for non-competitive, 1-year renewals. The fiscal year 2004 appropriation should be enacted by the time of grant award, in late calendar 2003. The Department will request funds in fiscal year 2004 which continue to reflect the view by, which we share with the Congress, as to the top priority of Shelter Plus Care renewals. If fiscal year 2004 funds are not provided for this purpose, or if they are not sufficient to fund Shelter Plus Care renewals expiring in fiscal year 2004, the Department will fund these renewals from the amount of funds available for competitive awards, thus decreasing the amount of funds available for Supportive Housing Program (SHP) renewals and new SHP, Shelter Plus Care and Section 8 Moderate Rehabilitation SRO projects. In addition, we believe our forthcoming homeless programs legislative proposal focused on streamlining and consolidation will allow for a more timely and efficient delivery of renewal and other grant resources.

## Automated External Defibrillator Program

Question: Mr. Secretary. As you are probably aware, cardiac arrest is one of the major killers in this nation. In 2000 Congress passed the Cardiac Arrest Survival Act, which recommended that government departments and agencies make life-saving automated external defibrillators, commonly known as AEDs, available to employees and visitors of federal buildings. This past year the General Services Administration released AED program guidelines for federal agencies that outlined the critical components of an effective AED program. They are as follows:

- Training/Certifying and Retraining Personnel in Cardiopulmonary, Resuscitation (CPR) and the Use of the AED and Accessories;
- Obtaining Medical Direction and Medical Oversight;
- Understanding Legal Aspects;
- Development and Regular Review of PAD and Operational Protocols;
- Development of an Emergency Response Plan and Protocol, Including a Notification System to Activate Responders;
- Integration with Facility Security and Emergency Medical Services (EMS), Systems;
- Maintaining Hardware and Support Equipment on a Regular Basis, and After Each Use;
- Development of Quality Assurance and Data/Information Management Plans;
- Development of Measurable Performance Criteria, Documentation and Periodic Program Review; and
- Review of New Technologies.

The Congress, in the fiscal year 2002 Treasury and General Government Appropriations Bill provided funding for the GSA to begin providing AED programs in federal facilities and recommended that such programs conform with the GSA Guidelines. I believe they are essential to any effective AED program.

I have heard that some agencies have just purchased AED's and hung them on the wall without taking steps to make sure they are used properly and effectively when they are needed. This is like buying a car without anyone trained to drive it. It looks good in the garage, but if you have to go anywhere nobody can drive. Protecting our federal employees and the people they serve is critical, particularly in light of recent world events and the need for emergency preparedness. I believe their needs to be comprehensive, effective, AED programs in place as outlined by the GSA. My question Mr. Secretary, is what is your department doing to come into compliance with this requirement?

Answer: The answer is as follows:

**Training/Certifying and Retraining Personnel in Cardiopulmonary, Resuscitation (CPR) and the Use of the AED and Accessories**

**Current:** Federal Occupational Health (FOH) provides AED initial and recurrent training for the staff in Health Unit Z11, located on the seventh floor of HUD's Headquarters building. In addition to the recurrent training, quarterly CPR/AED practice sessions are required of all authorized responders.

**Proposed:** Training 52 volunteer employees who will be located on each floor of the Headquarters building. These individuals will receive initial CPR and AED training and re-certification training annually.

#### **Obtaining Medical Direction and Medical Oversight**

**Current:** Oversight for the AED program is provided by John Perkner, DO, MSPH, an FOH employee. He monitors training activities and AED responders' certification through the AED Program Database. In addition, he works with the AED Site Coordinator to assure that all AED devices are properly accounted for and maintained for immediate deployment.

**Proposed:** FOH would be contracted to provide ongoing oversight in a manner similar to that of the current Health Unit program. For instance, the Medical Director will provide analysis of data recording cards from an AED unit and provide a written report of the event and a review of the AED team's response to the event.

#### **Understanding Legal Aspects**

**Current:** Through established "AED protocol and Standing Orders" as developed by FOH consistent with medical regulations and procedures, legal issues such as liability, certification of responders, maintenance of equipment, and response to cardiac emergencies are exhaustively met.

**Proposed:** The proposed volunteer program would also be under the auspices of FOH and, therefore, would comply with legal requirements as stated above.

#### **Development and Regular Review of PAD and Operational Protocols**

**Current:** The review is conducted on an annual basis.

**Proposed:** The review would be the same as the existing protocol.

#### **Development of an Emergency Response Plan and Protocol, Including a Notification System to Activate Responders**

**Current:** The Health Unit staff is alerted that an emergency exists via direct call-in to the main desk which accepts both internal extension and external phone calls. A specific emergency number extension "7777" has been established for both medical emergencies and other related building emergencies.

The protocol is as follows:

- Health Unit Staff will once notified of an emergency:
  - Notify local EMS by dialing 911 and inform them of nature and location of emergency and that an AED unit is on site.
  - Notify HUD Security and have them meet the nurses at a visible location and direct them to the victim.
  - Proceed directly to the scene with the Health Unit AED and other emergency equipment.
- Security will:
  - Meet nurses at a visible location and escort them to the victim.
  - Meet the EMS team and escort to the site of the emergency.
  - Respond to the site and offer any assistance needed.
- Emergency Site Protocol:
  - The AED trained Health Unit nurses on the scene will assume care of the victim:
    - Assess the safety of the situation and environment.
    - Assess the victim – assess responsiveness.
    - Verify that 911 and security have been called.
  - If there is a second nurse on the scene he/she will assist the first with CPR, monitoring of the victim, and application of AED, if indicated.
  - The Health Unit nurses act as the primary care givers and will be in charge of directing the activities until the local EMS arrives and assumes care of the victim.
  - To avoid confusion, no more than four responders will participate in the emergency event. The third and fourth responders will assist with recording of data and times, notifications, crowd control, escorting of EMS, and back up for CPR as needed. Any additional responders will leave the immediate area.
  - If AED use is indicated, the AED trained nurses will administer the AED and CPR according to established protocols until local EMS arrive and assume care of the victim.
- Post Event Guidelines:
  - Place any contaminated items in a red biohazard bag for disposal. If the AED unit has been contaminated, place it in a separate red biohazard bag for later disinfecting.
  - After the victim has been appropriately transferred to the local EMS professionals' care, complete the Post-Event Protocol Check List.

**Proposed:** The protocol will be similar to that listed above except that the wall-mounted AED Units will be wired with lights and alarms with automatic dial to provide immediate notification to the local EMS. Volunteers will receive appropriate communication devices to be able to communicate with the Health Unit staff and HUD Security.

**Integration with Facility Security and Emergency Medical Services (EMS), systems:**

**Current:** Integral to the protocol is notification of both HUD Security and 911 so that emergency support and response is provided quickly and efficiently.

**Proposed:** The wall-mounted AED Units will be wired with lights and alarms with automatic dial to provide immediate notification to the local EMS. Volunteers will receive appropriate communication devices to be able to communicate with the Health Unit staff and HUD Security.

**Maintaining Hardware and Support Equipment on a Regular Basis, and After Each Use**

**Current:** The current AED equipment is maintained in the following manner:

- Daily and After Each Use – All equipment is checked, cleaned, and disposable components are replaced (rescue face shield, mask, razor, gloves, towels, gauze, biohazard bags, etc.).
- Monthly and After Each Use – All supplies, accessories, and spares are determined to be present and in operating condition. Battery and pad packages are inspected for expiration and replaced, if expired.

**Proposed:** The maintenance program would be the same as stated above with the addition of inspecting the wall units and all wiring.

**Development of Quality Assurance and Data/Information Management Plans**

**Current:** FOH monitors all activity related to AED. Since the date of deployment of the AED equipment in the Health Unit, there has not been a cardiac emergency which necessitated its use. The unit was deployed 1 year ago.

**Proposed:** FOH would also monitor the units deployed on each floor.

**Development of Measurable Performance Criteria, Documentation and, Periodic Program Review**

**Current:** Measuring performance is based upon actual utilization of the program and to date there has not been an emergency to provide an actual performance report. However, the requirements for both staff certification and the equipment are strictly maintained per established FOH requirements and a log is maintained of actions taken to meet these requirements.

**Proposed:** As stated above, the same would be conducted for the proposed AED deployment.

**Review of New Technologies**



**Compliance:** HUD is committed to ensuring that the program currently in place, as well as the proposed expanded program, will consistently meet and exceed the requirements stipulated by GSA. In fact, the current program, as implemented by FOH, does meet the requirements of GSA by assuring: (a) compliance with program staff certification requirements, (b) equipment maintenance consistent with industry standards, (c) periodic review of protocol consistent with regulation and/or medical industry changes, (d) enhancement of equipment as a result of technological advances, and (e) ongoing quality control of the program.

HUD's proposed expansion of the existing AED program will also be implemented through FOH, and will conclude the following components:

- AED Program Development:
  - Set-up and integration of an enlarged program with site-specific protocol consistent with the existing program.
- AED Program Director/Oversight:
  - Track AED teams in database to assure compliance with certification requirements.
  - Provide ongoing support of AED teams.
  - Monitor changes in laws and standard of care and provide appropriate review and amendment of protocols to reflect these changes.
  - Provide an AED event response which includes a physician's analysis of the data recording card from an AED unit and a written report of the event. In addition, a review will be provided of the AED team's response.
- Recommendations of AED unit equipment which meets the requirements stipulated by industry regulation and Congressional requirements.
- Annual and quarterly training of Health Unit and volunteer staffs to assure skill proficiency.
- Recommendations of other medical supplies and equipment which are utilized in conjunction with the AED equipment.

## Affordable Housing

Question: Despite of the loss in recent years of a portion of our affordable stock and, the demonstrated need for more affordable housing, the HUD budget proposed by the Administration for FY2003 fails to provide additional finding for the production of affordable housing? Can you please provide the Committee with any and all analysis prepared by HUD on the impacts of the funding level on available housing stock?

Answer: HUD's budget does indeed include resources for the production of more affordable housing. Among other programs that provide funding for the production of new affordable rental housing are: the HOME program, Section 202, Section 811, HOPWA, and the Homeless programs. If funded, the 34,000 new incremental vouchers will also help to expand the availability of affordable rental housing. In addition, HUD recently raised the loan limits on FHA multifamily insurance, which has stimulated new rental production, particularly in high-cost areas. Finally, it is important to recognize the significant increase in affordable housing production capacity due to the recent increases in the Low-Income Housing Tax Credit and the caps for tax-exempt bond authority.

With respect to affordable homeownership opportunities, HUD's budget includes a significant increase for the Self-Help Opportunities Program (SHOP), an increase in funding for Downpayment Assistance, and funding to implement the use of Section 8 vouchers for the downpayment on a Home. The President's budget also requests funding for the Renewing the Dream Tax Credit, which will provide \$1.7 billion in tax credits for 5 years that will support the rehabilitation or new construction of an estimated 100,000 homes for purchase in low-income neighborhoods.

Following is an analysis of the impacts of HUD funding levels on the availability of affordable housing, contained in Exhibit Measure 2.3.4 of HUD's FY 2003 Annual Performance Plan.

**2.3.4: The number of households receiving housing assistance with CDBG, HOME, HOPWA, NAHBG and NHHBG increases.**

**Indicator background and context.** This indicator tracks both homeownership assistance and rental assistance provided through a number of formula block grant and other programs. Because of widespread shortages of affordable housing and the need to maintain existing housing units, it is desirable to increase the number of households aided with housing assistance, including rental housing production. The level of these housing outputs is subject to appropriations as well as economic conditions and local discretion.

Grantees use their discretion to decide what types of housing assistance to provide with HOME, Native American Housing Block Grants (NAHBG) and Native Hawaiian Housing Block Grant (NHHBG) funds. An analysis of HOME funds shows an increase in the share used for homebuyer assistance. In the case of CDBG, and HOPWA funds, housing assistance is one of several eligible activities among which grantees may choose. Analysis has shown a decline in the share of CDBG funds used for housing. SHOP funds can be used for land acquisition and infrastructure, but not for direct construction costs.

Households Assisted	1996 act.	1997 act.	1998 act.	1999 act.	2000 act.	2001 act.	2002 goal	2003 goal
CDBG households <sup>a</sup>	204,900	202,100	157,417	158,300	182,700	172,445	178,391	180,260
HOME tenant-based assistance <sup>b</sup>	9,118	7,792	8,246	8,246	6,899	11,756	8,439	9,932
HOME rental units committed <sup>b</sup>	23,918	23,041	24,148	25,114	33,487	27,456	27,799	29,784
HOME new homebuyers committed <sup>b</sup>	26,098	28,403	29,514	30,695	30,748	29,690	33,976	34,746
HOME existing homeowners committed <sup>b</sup>	12,086	13,053	13,415	13,952	14,731	12,566	15,444	13,140
HOME total households	71,220	72,289	75,323	78,006	85,865	81,468	85,658	87,602
HOPWA households	32,200	35,845	43,798	41,670	43,902	49,515	49,400	53,100
Native American Housing Block Grant units constructed or rehabilitated						tbd	tbd	tbd
Title VI Federal Guarantees program (number of loans)								15
Native Hawaiians assisted with NHHEG						tbd	tbd	tbd

<sup>a</sup> CDBG values for 1998-2001 reflect a reduction in the share of funds that grantees use for housing activities from 30 percent to 24 percent.

<sup>b</sup> Trend analysis was used to estimate the number of units produced by HOME in FY 1998 and 1999 during the conversion to the new data system (IDIS).

## Worst Case Housing

Question: You acknowledge that there are over 5 million families with worst case housing needs, do you believe that your request for 34,000 incremental vouchers is adequate? If your request is accepted, how many families will be faced with worst case housing needs?

Answer: The most recent HUD analysis of worst case needs shows that 4.9 million households had worst case needs in 1999. While this represents a significant decline from the number with worst case needs in 1997, it nevertheless shows that a significant number of households continue to have worst case needs for rental housing.

Although admissions preferences vary locally, it is likely that most households that receive incremental vouchers previously had worst case needs. Accordingly, the new vouchers will have a positive impact in reducing worst case needs. Because of economic changes between 1999 and 2001, and the fact that data are not yet available from the 2002 American Housing Survey, HUD is unable to predict with any confidence the level of worst case needs in 2001 or 2002. However, the Department's fiscal year 2003 Annual Performance Plan contained indicator, 2.3.1, as follows, which targets a 5 percent reduction by fiscal year 2003.

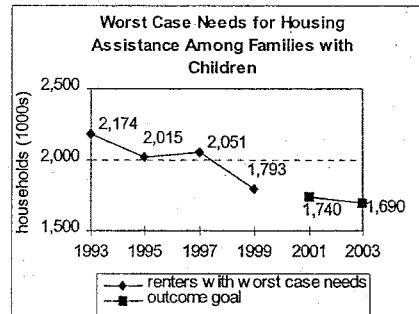
**2.3.1: The number of households with worst case housing needs decreases by 3 percent between 2001 and 2003 among families with children, the elderly, and person with disabilities.**

**Indicator background and context.** As part of its ongoing data collection and analysis efforts, HUD regularly measures the number of renter households with “worst case needs.” For more than a decade, households with “worst case needs” have been defined as unassisted very-low-income renters who pay more than half of their income for housing or live in severely substandard housing. Despite robust economic growth between 1991 and 1999, some 4.9 million households containing almost 10.9 million people had worst case needs in 1999. Although the Department has little influence over the *number* of renter households with very low incomes, HUD devotes a substantial portion of its budget to helping them afford housing through such programs as the Housing Choice Voucher Program, the project-based Section 8 program, public housing, HOME, CDBG, multifamily insurance, and Sections 202 and 811. Reducing the number of families with worst case needs among all household types is a key HUD priority.

To help reduce the large unmet need for affordable rental housing, the FY 2003 budget includes \$204 million for 34,000 additional housing vouchers. Among other HUD activities that will help to reduce worst case needs are efforts to improve the utilization of Housing Choice Vouchers, and funding for HOME, CDBG, HOPWA, and Sections 202 and 811.

Through such initiatives, HUD aims to reduce worst case needs among families with children by 3 percent between 2001 and 2003. The goal was stated as 4 percent in the 2002 APP, but has been reduced to 3 percent to reflect weakened macroeconomic conditions. Lacking 2001 data, worst case needs among families with children are still projected at 1.74 million in 2001, although the 2001 recession is likely to make this projection optimistic. A corresponding 3 percent reduction in elderly

households with worst-case needs would put elderly households with worst case needs at 970 million in 2003. If the 2001 baseline for worst case needs among persons with disabilities remained at the 1999 level of 1.1 million, then a 3 percent decline would leave 1.07 million in 2003.



Data are based on calendar years.

## Opt-Outs and Mark-to-Market

Question: How many Section 8 units have opted out of the Section 8 system in the last two years?

Answer: The Department is in the process of updated and revising its systems for tracking opt-outs in its Real Estate Management System (REMS), including a specific effort to confirm actual opt-outs from the project-based inventory and reconciling this data with public housing records for issuances of tenant protection vouchers for projects that have filed an intent to opt-out. Difficulty has been experienced in tracking these actions because project owners sometimes give formal notice of an intent to opt-out, but are later persuaded to continue with project-based assistance. Another issue is that opt-out data has been combined with counts of Section 8 contracts that have been terminated by HUD because the property fails to meet program standards. Preliminary results, however, indicates that approximately 10,000 units in about 230 projects were removed from the project-based inventory in fiscal year 2001 by a decision by a property owner to opt-out of the Section 8 project-based program. For fiscal year 2000, our current estimate is 20,000 units were involved in project opt-outs.

Question: How many units have participated in HUD's "market to market" preservation program?

Answer: Since inception of the mark-to-market program through February 28, 2002, 1,354 properties, with a total of 105,834 units, of affordable housing have been preserved. The Market-to-Market (M2M) reviews resulted in:

- 445 full debt restructurings, (35,592 units),
- 276 Actions Other Than Closing (AOTC), (15,677 units). AOTC transactions are comprised of those deals that are financially infeasible, or where the owner refuses to complete the closing, or where a bad owner/bad property is involved.
- 574 lites (reductions in contract rents that do not require debt restructuring), (49,558 units), and 105 comparability reviews, (7,346 units).

Of the 1,354 properties completed as of February 28, 2002, 968 properties with the total of 80,584 units, received reduced rents. The remainder were either still in process, have ultimately been determined to have rents at or below market, or are not eligible for the M2M program. Properties that received rent reductions include the following transactions:

- 407 full debt restructurings, (32,870 units);
- 108 AOTC, (7,178 units); and
- 453 lites, (40,536 units).

Public Housing Reinvestment and Financial Reform

Question: The Administration is encouraging Public Housing Authorities to offset cuts by raising private capital. The Chicago Housing Authority (CHA) already leverages private financing by leveraging capital expenditures. Will this new untested initiative affect CHA's financing?

Answer: The Chicago Housing Authority's bond financing already has been approved by HUD and has been completed. The new initiative will not affect this financing.

Moreover, the new initiative will give the CHA and other PHAs another financing option to consider in the future. This financing option, which is patterned after current multifamily real estate and Section 8 transactions, may yield better results for PHAs in a number of situations.



Public Housing Reinvestment and Financial Reform

Question: Are you proposing that Public Housing Authorities should leverage buildings as collateral? If so what will happen to the tenants if the public housing authorities default?

Answer: The Public Housing Reinvestment Initiative would allow PHAs to borrow money for capital improvement in the same manner as other Section 8 and unsubsidized multifamily property owners. This means that the property typically would be pledged as collateral. However, there are a number of protections proposed to protect assisted families.

First, HUD would have to approve each transaction, and thus HUD and the PHA as well as the lender would have to be comfortable with the projected financial soundness of the transaction. Second, there would be voluntary reserves to prevent foreclosure situations. Third, in the event there was such a situation, most lenders would want the Section 8 subsidies to continue and thus the tenants would be protected. Fourth, in the event this was not the case, the proposed legislation provides that the affected families would receive enhanced vouchers.

Studies on the Effects of Security Needs of PHAs Caused By Terminating the DEG Program

Question: Last year, at the urging of HUD Congress terminated the Drug Elimination Program. Have you done any studies or research into the effects of this termination on the security needs of housing authorities?

Answer: No, the Department has not done any studies or research into the effects of the termination of the Drug Elimination program on the security needs of housing authorities. The fiscal year 2002 budget proposed to consolidate and streamline the Department's anti-drug use activities in an effort to end duplicative programs and thus requested additional funds under the Public Housing Operating Fund that could be used by the PHAs for drug prevention activities such as security needs of housing authorities. However, HUD does not separately track or report on the use of operating subsidies but requires PHAs to report on their overall revenue and expenditures. In addition, HUD will continue to track FBI Crime Index as the most reliable performance indicators in the Drug Elimination Reporting System for gauging security needs of housing communities.

## Percentage of Operating Subsidies Utilized on Security Personnel and Other Services

Question: Have you done any research to indicate what percentage of operating subsidies public housing authorities have diverted to pick up the cost of security personnel and other services that previously were funded by the drug elimination program?

Answer: No, HUD has not done any research on this matter. Action taken by Congress on HUD's fiscal year 2002 appropriation bill resulted in the Public Housing Operating Fund receiving \$110 million more than requested, in recognition of the merger of funds previously provided for the Public Housing Drug Elimination program into this account. Of the additional funds, \$10 million would be available to the Department of Justice and \$5 million would be transferred to HUD's Office of Inspector General to support the closeout of the Operation Safe Home program. In conformance with Conference Report language, the remaining \$95 million will be distributed to all PHAs through the operating subsidy formula. The use of these funds will be a matter of local determination and priority, but could be used to fund anti-crime and anti-drug activities, including the cost of security personnel and other services that were previously funded by the Drug Elimination program. HUD does not separately track or report on the use of operating subsidies, but rather requires PHAs to financially report their overall revenue (e.g. dwelling rents, investment income and operating subsidies) and expenditures.

Ms. Schakowsky #6c

Studies on Use of Operating Subsidies for Anti-Drug and Anti-Crime Activities

Question: Please provide the Committee with any and all studies prepared by HUD on this issue.

Answer: The Department has not prepared any studies on the use of operating subsidies funding for anti-crime and anti-drug activities.

Public Housing Reinvestment and Financial Reform

Question: What research have you done to indicate private lenders are interested in the public housing properties in the worst physical condition?

Answer: HUD has consulted with private lenders and various other experts with lending expertise regarding its proposal. A number of these experts have indicated that lenders would be interested.

The proposal would allow financing to be raised based on rental values for the properties, the way all other multifamily real estate finance typically is done. Lenders and rating agencies also are familiar with similar Section 8 transactions. In addition, the proposal contains provisions to enhance credit through a loan loss reserve, which should help attract lenders.

The proposal is not limited to the worst public housing properties. It would work where the projected rent levels after rehabilitation (which could be partly funded by a Capital Fund or other up-front contribution) will be high enough to support the necessary capital and operating expenses and still at an amount HUD can approve. It is a voluntary initiative that would be reasonable to undertake for many properties, but not every property.

Ms. Schakowsky #8a&b

Applying for PEI Grants

Question: What is the rationale for not allowing fair housing organizations to apply for consecutive Primary Enforcement Initiative grants? Do you have any plans to review this policy?

Answer: The fiscal year 2002 Fair Housing Initiatives Program Notice of Funding Availability eliminated this policy. Now, groups that are awarded Private Enforcement Initiative grants will not have to wait a year before applying for a new grant. This change in policy provides greater continuity for grantees who require follow-up funding to complete activities underway.

## Notifying and Awarding of Funds

Question: In the past, HUD has taken up to a year to notify and fund award recipients. What is the cause of delays in announcements, notification, and disbursement of Fair Housing Initiative Program (FHIP) grants?

Answer: Historically, FHIP staff at HUD headquarters handled all FHIP application evaluations, announcements, notifications, negotiations, and disbursements. To make the process more efficient and expeditious, HUD made a number of changes to the program in the past couple of years. These include:

1. Completing the devolution of the FHIP to the field where the grants management staff assumed responsibility for negotiation and obligation of awardees;
2. Planning and implementing training to field grants management staff;
3. Recommending increases in grants management field staff to assist with the increased number of grants being awarded; and,
4. Providing a contractor to expedite the application review and selection process.

These steps will be reflected in an accelerated process however; the NOFA process will still require substantial time for announcement, competition and award.

FHIP Funding

Question: What can be done at HUD to speed up the process?

Answer: We are reviewing the staffing levels of grants management offices in the Field. We are also in the very early stages of considering several ways to streamline the FHIP. One such way is to consider the development of criteria for providing funds to some Private Enforcement Initiatives recipients independent of the NOFA. This would allow funds to be awarded before the NOFA is announced.



## Qualified Organizations

Question: How does HUD screen for qualified fair housing organizations in the FHIP process?

Answer: The Fair Housing Initiative program has a number of eligibility screening requirements. They are:

1. Initial screening for eligibility criteria and technical deficiencies (based on each Initiative's eligibility criteria, as published in the FHIP Notice of Funding Availability). For the Private Enforcement and Fair Housing Organizations Initiatives, we require that applicants self-certify that they are qualified fair housing organizations with 2 years of enforcement-related experience, or fair housing organizations with 1 year of enforcement-related experience. An applicant's failure to self-certify is deemed a technical deficiency, and requires that the applicant be notified of its deficiency and allowed 14 working days to correct the deficiency. If the applicant fails to correct the deficiency, the applicant is deemed ineligible for funding.
2. FHIP staff independently verify the validity of an applicant's self-certification, and the Technical Evaluation Panel evaluators screen applications to determine the eligibility of the applicants.

## Decentralization

Question: Former Secretary Cuomo successfully decentralized the decision making process, giving significant latitude to regional hub directors. What is HUD doing to ensure consistent enforcement of fair housing laws?

Answer: The Department is engaged in a broad range of activities that further our policy to consistently and effectively enforce the Fair Housing Act. These activities include monitoring the regular enforcement activities of the field offices to ensure they are consistent with Departmentwide enforcement guidance, and regular consultation with the field on novel and complex issues. The managers in HUD Headquarters and from the field offices also participate in weekly conference calls and quarterly meetings to share information and develop consistent policy.

HUD has also implemented Fair Housing Act enforcement training activities for HUD staff and State or federal agencies, and is providing on-site technical assistance and staff support to FHEO field offices in investigating and processing complex fair housing cases.

In addition, HUD implemented a Quality Management Review process to ensure that HUD field offices are enforcing the Fair Housing Act in accordance with standards and policies issued by HUD headquarters, and meets monthly with the Department of Justice to coordinate each agency's responsibilities in enforcing the Fair Housing Act.

## Housing Counseling Standards

Question: I am pleased that in your proposed budget you increase funding for home counseling from \$20 to \$35 million. Are you considering adoption of national standard for homeownership counseling performance based or results based- to establish funding levels?

Answer: The funding formula in the fiscal year 2002 Housing Counseling NOFA is purposefully designed so that resulting awards are performance-based. In fact, 70 percent of the total points available to an applicant correspond to an agency's demonstrated ability and proposal to provide quality services to the greatest volume of individuals at the lowest cost. For example, applicants are required to submit budget information and data reflecting clients served for the previous year, allowing reviewers to perform an analysis of the various costs associated with the provision of services and to evaluate an agency's overall performance.

Moreover, the minimum score for fundable application has been raised this year to 70 points (from 50 in fiscal year 2001), further insuring that the most deserving agencies, based on performance, receive funding.

Question: Predatory lending and abuse of HUD-insured mortgages has resulted in a large number of foreclosures across the country, with many FHA-insured small homes ultimately becoming HUD-owned.

Unfortunately, HUD's solution to this problem, partnering with local agencies to transform these properties into decent, affordable homeownership opportunities for local buyers, has unintentionally resulted in the phenomenon we now know as flipping.

In order to prevent this, HUD has entered into bulk sales, or Asset Control Area agreements, with local public agencies and nonprofits in cities such as San Diego, Chicago, and Cleveland.

Would you support the expansion of this program, or some similar version of it, to other areas with high rates of HUD foreclosure to increase homeownership, as per HUD's mission?

Answer: FHA has found that predatory lending practices are usually very localized. While this can have a profound impact on local housing markets, it does not substantively affect FHA's overall foreclosure rate, which at the end of Fiscal Year 2001 was at a 10-year low. Flipping, the resale of a property by an investor shortly after purchase at a much-inflated value, is a component of predatory lending. To help address this problem, HUD is preparing to change its rules to prohibit the practice of property flipping at any value for all FHA-insured single family loans.

HUD recently announced that the Department would be conducting a full review of the Asset Control Area (ACA) Demonstration program in response to concerns raised by HUD's Office of Inspector General. During this review period existing ACA agreements will be allowed to expire. Until the review is completed, program expansion or extension will not be considered.

Velazquez

## Empowerment Zones, EDI

Question: The Empowerment Zones Initiative, and the EDI Special Projects Fund, are intended to help work towards the economic development and revitalization of those communities which did not experience growth, even during the strong economic climate of the mid- to late-1990s. Given our current economic insecurity, I believe that these programs are now more important than ever. A community that does not prosper in boom times, must be helped during the lean times. Otherwise, we could well see a reversal of the fortunes of our inner cities to the state of disorder and despair which characterized too many such communities in the 1980s. How does the Administration rationalize the elimination of those programs which are designed to lift our most at-risk neighborhoods up at a time when these funds are most critical to continue the strides forward that we have made thus far?

Answer: HUD is not eliminating the Empowerment Zone program. HUD will emphasize tax incentives and leveraging funds in the Empowerment Zone program through greater attention to Tax Incentive Utilization Plans. In fact, the eight new Round III Empowerment Zones and Renewal Communities are enthusiastically going after tax-free bonds and other incentives that total over \$22 billion. HUD will also work with Round II zones to increase their capacity to use the grant funds that they already have.

Special EDI project funding reflects individual Congressional priorities, rather than national priorities for housing and community development. The Administration's budget, on the other hand, allocates housing and community development resources on a priority basis to address the nation's most critical needs.

Velazquez

American Dream Downpayment Fund

Question: I would like to take a moment to address the \$200 million budgeted for the President's American Dream Downpayment Fund. This money, which you are asking the Congress to appropriate on top of the \$50 million appropriated last year, will go towards a fund for which there is no authorizing language. Furthermore, no one has seen any proposed language, or for that matter, heard any word of your intentions to send over such language before the appropriations season gets going.

While I agree that homeownership is an important goal and an essential piece of the American dream I am troubled about the prospect of even more money sitting unused when our budget for other worthy programs is stretched incredibly thin.

How do you justify requesting that \$200 million be essentially marked as unusable in such a thin budget? Given these concerns, do you believe that this is a wise use of our limited funds?

Answer: Representative Rogers of the Eighth District in Michigan introduced the authorizing legislation for the American Dream Downpayment Fund on April 16, 2002 (HR4446). The bill has 63 co-sponsors in the House and Senator Allard has agreed to introduce it in the Senate. We look forward to early enactment by a Congress that certainly shares, as do we, your concern for the timely expenditure of appropriated funds. HUD is ready to allocate the \$50 million appropriated for Fiscal Year 2002, should authorizing legislation be enacted by June 30, 2002.

Once the bill becomes law, I can assure you that State and local government grantees will receive the \$200 million Fiscal Year 2003 allocation of American Dream funds at the very same time that they receive their regular HOME funds, and that the same commitment deadline that applies to regular HOME funds (24 months) will apply to American Dream funds thus ensuring that these funds will not sit unused at this time of great need in our communities.

Velaquez  
CDBG Allocation Formula

Question: The Community Development Block Grant (CDBG) program is of fundamental importance to the economic and social well being of New York City. Recent changes to the allocation formula, possibly resulting from interpretations of census data, have resulted in the City losing over \$10 million as compared to the amount expected as late as December, 2001. Given the social and economic impact of September 11, the timing of this cut was very poorly thought out. Will you commit to reexamining the allocation formula?

Answer: New York City's formula entitlement amount was \$228,748,596 for Federal Fiscal Year 2001 and \$218,324,000 for Federal Fiscal Year 2002.

The Community Development Block Grant formula amounts for both fiscal years is based upon a statutory formula. There was no change to the allocation formula. The decrease in the CDBG formula grant amount for New York City between fiscal years 2001 and 2002 is a function of the Congressional appropriation, demographics, and new entitled cities authorized to participate by the CDBG statutory provisions. The Department has no discretionary authority in the calculation of the City's formula grant. The approximately \$10 million reduction was purely a function of the CDBG statutory formula.

In particular, the Congressional appropriation for Fiscal Year 2002 accounts for 1.3 percent of the 4.6 percent reduction in New York City Fiscal Year 2002 CDBG entitlement grant, because CDBG formula funds generally available for all grantees were reduced by 1.3 percent. The addition of new grantees also accounts for a 0.5 percent reduction of the amounts available to all grantees generally. The final 2.8 percent reduction is due to the use of the Census 2000 population counts.

The Department agrees that New York City needs assistance in recovering from the September 11 disaster. HUD is proud to be able to deliver approximately \$2.7 billion in appropriated supplemental funds through the CDBG program to the recovery efforts in New York.

*Velazquez*

Quality Housing and Work Responsibility Act (Section 519n)

Question: I was one of the Members of this Committee who fought for the enactment of section 519(n) of the 1998 Quality Housing and Work Responsibility Act. This section authorized 7,000 units of locally funded public housing in NY and MA to be federalized. One of the projects submitted by NY, Bushwick Houses, is in my district.

Just last month, the US Court of Appeals for the Second Circuit unanimously ruled that HUD must proceed with the federalization of these units.

Congress has mandated this, and the Courts have upheld it, yet according to your Budget, rather than comply with this law, you are seeking to have it changed. Doesn't it make more sense to simply federalize these units today?

Answer: Section 9(n) of the United States Housing Act of 1937, added by section 519 of the Quality Housing and Work Responsibility Act of 1998, authorized the Secretary of HUD to include State and locally developed public housing units developed under New York law into the Federal public housing program for purposes of receiving allocations of operating and capital funds pursuant to statutory and regulatory formulas. This provision authorizes the inclusion of not more than 7,000 units in New York in the Federal public housing program. However, a separate provision of the same law (P.L. 105-27) prohibited the use of Federal funds to provide new assistance for State and locally developed public housing units. These conflicting provisions gave rise to legal questions concerning HUD's authority and responsibility to implement Section 9(n).

The Department, in its Fiscal Year 2003 Budget request, has proposed to repeal the provisions that have resulted in the court rulings (Section 209 of the Administrative Provisions Act). HUD has estimated that the cost of federalizing 12,000 State-aided units in New York and Massachusetts would be in the magnitude of \$70 million annually; others have projected higher estimates. In addition, under some interpretations of the statute, funding would have to be provided for fiscal years 2000, 2001, and 2002. As Senators Bond and Mikulski, the Appropriations Subcommittee Chairman and Ranking Member at the time this legislation was passed, argued during the debate on last year's HUD appropriations act, such costs would directly reduce the amount of funds to be distributed to all other housing authorities. That result would be unfair to the rest of the Nation, and is unwarranted in view of the limited operating and capital funds available for public housing.

Both the United States District Court for the Southern District of New York and the United States Court of Appeals for the Second Circuit have issued decisions this year, indicating that implementation of Section 9(n) should proceed retroactive as of Fiscal Year 2000. Accordingly, consistent with the Courts' requirements, HUD will be issuing a Notice inviting applications from public housing authorities managing State or locally developed housing in New York State to designate up to 7,000 of those units as "covered units" eligible for inclusion in the Federal public housing program.



Velazquez  
Predatory Lending - "Hot Zones"

Question: Predatory Lending continues to be a source of significant concern for all of us. In New York City, several neighborhoods were designated "Hot Zones" of predatory lending and given special protections. Many of the designated zip codes were located in my district. Unfortunately, this initiative, which was received with such high hopes in my communities, was largely ineffective. Many of the promised protections never came to light and too few zip codes were designated. Furthermore, it was terminated before effective solutions could be reached. Would you support a resurrection of it in a form that is more likely to be of long term significance to those communities in NY and around the nation which have been disproportionately targeted by predatory lenders?

Answer: The purpose of the Hot Zone designation by the prior Administration was to allow the Department to study the relationship between high defaults and predatory lending. As a result of this analysis, the Department found the highest correlation between high defaults and predatory lending in Baltimore. This effort did not result in the definition of successful corrective actions to help borrowers and stop predatory lending.

Shortly after Secretary Martinez took office, this Administration formed a task force to investigate predatory lending activities in the Baltimore area. Actions have been taken which have reduced both FHA mortgage defaults and new predatory activity in Baltimore. These lessons learned are now being applied to national policy. The Task Force is currently working to determine what additional actions are necessary to prevent predatory lending actions. A Senate hearing on the Task Force's progress has been scheduled for June 10th. The following activities have been completed to date:

- A Property Flipping Rule has been drafted that will make flipped loans ineligible for FHA insurance.
- An Appraiser Qualification Rule was published in November 2001, that strengthens FHA appraiser licensing and certification requirements.
- Advance Notice has been published of an accelerated claim demonstration program that will allow HUD to purchase loans most likely to go to foreclosure and transfer management to the private sector, thus reducing HUD foreclosures.
- In addition to issuance of updated Real Estate Sales Procedure Act (RESPA) guidance clarifying lender fee disclosure requirements, and prohibiting the markup of settlement costs, HUD is stepping up enforcement of RESPA requirements.
- Initiate a new "Appraisal Watch Initiative," similar to HUD's successful lender monitoring and sanctions tool, Credit Watch Termination. This tool will help FHA remove poorly performing appraisers from its programs.

## Public Housing Reinvestment and Financial Reform

Question: The President proposes a new financing tool to enable public housing authorities (PHAs) to make improvements to old housing units to make up for the \$418 million cut in the Public Housing Capital Fund, which is currently used to fund repairs of and improvements to public housing. Unfortunately, this financing proposal is only intended to fix a few public housing buildings while the cut to the Public Housing Capital Fund will adversely affect all public housing developments. How does HUD expect PHAs that do not get access to this new financing program to replace their lost Capital Funds?

Answer: The amount proposed for the Capital Fund, apart from the new initiative, is sufficient to fund new capital accrual needs in fiscal year 2003. In addition, substantial funds have not yet been obligated or expended from prior year appropriations by PHAs. The new financing tool will enable many PHAs to leverage additional capital funds.

## Public Housing Reinvestment and Financial Reform

Question: The President proposes a new financing mechanism for PHAs to borrow money to fix up their dilapidated properties. However, to help public housing authorities qualify for private loans, the Administration would give a private lender the power to foreclose on the property. How does HUD propose to ensure that affordable housing is always available to seniors and families under that plan?

Answer: Borrowing of capital funds to improve individual properties carries with it the risk of foreclosure, however small. The Public Housing Reinvestment Initiative will allow substantial capital to be raised so that public housing conditions can be improved in the near future. The improvement in conditions is worth some risk, and the risk is minimized by a number of safeguards.

First, HUD would have to approve each transaction, and thus HUD and the PHA as well as the lender would have to be comfortable with the projected financial soundness of the transaction. Second, there would be voluntary reserves to prevent foreclosure situations. Third, in the event there was such a situation, most lenders would want the Section 8 subsidies to continue and thus the tenants would be protected. Fourth, in the event this was not the case, the proposed legislation provides that the affected families would receive enhanced vouchers.

## Public Housing Reinvestment and Financial Reform

Question: The President's financing proposal is supposed to help local PHAs replace the funds they lose due to the \$418 million fiscal year 2003 cut in the Public Housing Capital Fund. However, the plan will, at best, take years to implement. Does HUD contemplate some transition period? If not, how does HUD propose that PHAs will get the funds required to repair and modernize their housing in 2003 for a program that could take years to implement?

Answer: Participation in the Public Housing Reinvestment Initiative would be voluntary for PHAs. A substantial number of transactions could be undertaken during the time provided for the commitment of fiscal year 2003 capital funds. In addition, even without considering any leveraging as a result of the new initiative, the proposed Capital Fund amount is enough to cover new capital accrual needs in fiscal year 2003.

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