

**PROPOSED FISCAL YEAR 2004 BUDGET
FOR THE U.S. DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT**

HEARING
BEFORE THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

ON

THE ADMINISTRATION'S PROPOSED FISCAL YEAR 2004 BUDGET FOR
THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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MARCH 4, 2003
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C O N T E N T S

TUESDAY, MARCH 4, 2003

	Page
Opening statement of Chairman Shelby	1
Opening statements, comments, or prepared statements of:	
Senator Reed	3
Senator Corzine	4
Prepared statement	43
Senator Crapo	5
Senator Allard	5
Senator Dole	6
Prepared statement	44
Senator Sarbanes	13
Senator Carper	13
Senator Sununu	20

WITNESS

Mel Martinez, Secretary, U.S. Department of Housing and Urban Development, Washington, DC	6
Prepared statement	45
Response to written questions of Senators Sarbanes and Reed not were available at time of printing.	

**PROPOSED FISCAL YEAR 2004 BUDGET
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TUESDAY, MARCH 4, 2003

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:03 a.m. in room SD-538 of the Dirksen Senate Office Building, Senator Richard C. Shelby (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN RICHARD C. SHELBY

Chairman SHELBY. The Committee will come to order.

We are pleased this morning to welcome Secretary Mel Martinez from the Department of Housing and Urban Development.

Ranking Member Sarbanes and I have asked Secretary Martinez to come before the Committee today to share the details of the Administration's proposed Fiscal Year 2004 Budget for HUD, and I appreciate the Secretary making the time to be with us today.

Mr. Secretary, I am going to have to leave in just a few minutes because we have a very important organizational shuffling in the Appropriations Subcommittees. And if you are a Subcommittee Chairman, which I have been fortunate to be, you certainly have to be there. So, Senator Allard is supposed to come and relieve me. But if I happen to walk out, it is not because you are doing or saying anything I don't like.

Secretary MARTINEZ. I understand.

Chairman SHELBY. I will be back.

Secretary MARTINEZ. Yes, sir.

Chairman SHELBY. Mr. Secretary, let me begin by saying that I think this is a valuable opportunity for me and the other Members of the Committee. In previous years, HUD's budget hearing was many times held at the Subcommittee level. Since HUD is such a crucial and important part of this Committee's jurisdiction, I thought it would be important to hear from you, Mr. Secretary, here before the Full Committee.

I am pleased that Senator Allard, the Subcommittee Chairman on Housing and Transportation, has for many years made HUD oversight a priority and he has worked diligently there. I am looking forward to working with him and going forward on important housing issues.

President Bush is proposing to fund HUD at \$31.3 billion in 2004, an increase of \$262 million over 2003. It includes several im-

portant and ambitious initiatives. I am particularly pleased to see the Administration's budget submission contains many important tools to increase homeownership.

On average, American families have 44 percent of their net wealth in the equity value of their home. Homeownership is shown to be an important tool to lifting low-income and minority families out of poverty. Providing homeownership opportunities for these families not only provides them with an opportunity for wealth building, but also increases community pride and has a stabilizing effect on children.

The President's American Dream Downpayment Initiative is a great first step, I believe, in meeting this goal.

The greatest barrier to homeownership is a lack of resources for downpayment and closing costs. The American Dream Downpayment Initiative calls for a \$200 million program to provide assistance for downpayment and closing costs to families wanting to own a home.

Additionally, the 2004 Budget proposes a new mortgage insurance product within the Federal Housing Administration. It is designed to serve a subprime market of families who, because of poor credit history, are unable to get mortgage insurance on the private market at a reasonable rate. This program envisions requiring families to pay a higher premium insurance rate at the outset, but offers the opportunity for reduced rates in subsequent years once a pattern of prompt payment and better credit is established.

Another portion of the budget submission I would like to mention is the creation of the Housing Assistance for Needy Families Program. This bold initiative would block-grant funds from the Section 8 Housing Choice Voucher Program. By allocating resources to the States here, there is an opportunity for increased efficiency and, we believe, the potential for enhanced coordination with other social service programs administered at the State level. I will be interested, Mr. Secretary, in learning just how this change might be implemented.

One area of concern I would like to mention here this morning is, and while this doesn't relate directly, Mr. Secretary, to your budget submission, I think it is important that it be raised in the context of HUD funding.

Some sources estimate that HUD is overpaying Section 8 rental payments at an estimated rate of \$2 billion a year. This is a troubling situation if that is true, but one that I know you are making every effort to rectify and to get your hands on.

Particularly in this challenging budget in this climate today, I think it is extremely important that you focus on efficiencies within the Department, and I know you have talked with me about this before. Two billion dollars a year, if that figure is right, in misdirected funds is way too high and causes all of us significant concern. The \$2 billion is money that could be spent for serving other needy communities or meeting other budgetary programs.

Mr. Secretary, we are pleased to have you with us this morning and I look forward, as I have been, to working with you and we are proud of what you are doing.

Secretary MARTINEZ. Thank you, Senator.
Chairman SHELBY. Senator Reed.

STATEMENT OF SENATOR JACK REED

Senator REED. Thank you very much, Mr. Chairman.
Welcome, Secretary Martinez.

I had the pleasure and privilege of working with the Secretary and it has been a distinct pleasure. He is someone with enthusiasm and commitment to the housing goals that we all share. And as I said to you prior to the hearing, Mr. Chairman, I think I like the budget that you sent to OMB better than the budget that OMB sent to us, because this budget, frankly, doesn't begin to meet the needs of housing in the United States.

We have seen in something that is not recent, but since 1976, HUD has lost about two-thirds of its purchasing power in terms of its budget. And at the same time, housing costs have accelerated throughout the United States. So, people are really caught in a squeeze between increasing rental prices, increasing home prices, and dwindling Federal commitment to housing, particularly housing production. Again, this budget seems to reflect that.

I am glad that programs like HOME and lead hazard control grants have been increased a bit. But overall, the budget just does not respond to the needs we see out there in every community of this country for adequate, safe, affordable housing for our citizens.

Prices go up, 14 percent in my State, and they keep going up, and still, people are without adequate housing.

We also have seen a commitment by you and the Administration, a laudable one, to end homelessness in 10 years. But, frankly, the funding in this budget for homeless programs is not nearly enough to meet this 10-year goal.

In my home State of Rhode Island, homelessness has increased by 23 percent during the past year, and the number of homeless children has increased by 31 percent. These are statistics that we all regret and, hopefully, we can do something about.

As I noted, the lead program has an increase of \$10 million over your fiscal year 2003 request. But that is still \$39 million less than Congress appropriated for fiscal year 2003. So, I think that the sentiment is there, but the resources aren't adequate.

Last year, we had a hearing, as I chaired the Subcommittee, to meet the goal of saving children by 2010 from the exposures to lead. It would take about \$400 to \$500 million a year, by calculations. Certainly, much less is being appropriated in this bill.

I am concerned that you are zeroing-out the Section 8 program. I am also concerned that we have a cut in public housing funds. The Administration has proposed cuts of \$1.2 billion in capital funds in the past three budget submissions, despite a \$24 billion backlog in need for public housing authorities throughout the country. In addition to that, there is a proposal to zero-out the HOPE VI program.

So the budget, I think, again, is not adequate to the task of providing every American with access to affordable housing. I know that is your goal. That is your commitment. That is what you want to do. Hopefully, working with you, we can fix some of these short-falls in funding.

I thank you, Mr. Secretary.

Secretary MARTINEZ. Thank you, Senator.
Chairman SHELBY. Senator Corzine.

STATEMENT OF SENATOR JON S. CORZINE

Senator CORZINE. Thank you, Mr. Chairman.

I have a full statement I would like to submit for the record.

Chairman SHELBY. Without objection it will be made part of the record in its entirety.

Senator CORZINE. Thank you. I want to reiterate some of the concerns that I heard my colleague mention. I have serious concerns about the 2004 Budget with respect to the Department of Housing and Urban Development. I believe it is going to bring enormous harm to low- and middle-income families throughout America and I can say quite practically that will be the case to the people of New Jersey.

It is a budget that provides no direct Federal aid to those States facing their worst fiscal crisis on a more broad basis than what is concerned here. We have heavy cuts going on in social programs, including in the housing area in our State. I won't go through homeland security and education and other things, but I am truly concerned about what it does to housing programs.

The fact is, in my view, if I am calculating this right, we have \$2 billion less for public housing programs through the operating funds and the fund for the Public Housing Drug Elimination Program. The Administration's proposals to block-grant the Section 8 program, which will likely reduce funding dramatically for this program over a period of time, given the competing needs in the States.

I am truly concerned, as I expressed to you last year, about the Public Housing Drug Elimination Program. One of the things that is most surprising to me, based on the kinds of commentary we had from the Secretary was about the HOPE VI program. I just have a hard time understanding what is almost universally accepted as a successful, bipartisanly supported program is undercut tremendously, eliminated practically in all real forms.

The Empowerment Zones issues, which I am working with a number of Republican colleagues in the House and in a number of places across our State—it is a tough budget. I know we are in a tough financial situation as a Nation. That is why I am so adamantly opposed to having tax cuts while we are cutting the kinds of programs that I think are fundamental to the welfare of our Nation, both low- and middle-income families.

The Low-Income Housing Tax Credit is going to suffer enormously in the context of the dividend exclusion. Ernst & Young has out a report that says that 35 percent fewer units would be financed. There is a programmatic effort that makes one wonder whether we are committed to affordable, low-income housing.

I can tell you in New Jersey, this is a crisis. It is absolutely a crisis. There are not enough homes available for families to put people back to work, but the houses and housing is not available in the areas where people need to work.

It is a real stretch.

So, I know the Secretary is good-willed about where he wants to go with these things, but these budget proposals I do not think match the words. They do not always match the kinds of comments we have had in hearings like this before.

I am anxious to hear your comments with regard to the budget constraints.

Thank you.

Chairman SHELBY. Senator Crapo.

COMMENTS OF SENATOR MIKE CRAPO

Senator CRAPO. Thank you very much, Mr. Chairman. I won't make an opening statement at this time. I will save my comments until the question period.

Chairman SHELBY. Senator Allard, I am going to recognize you and turn the hearing over to you.

STATEMENT OF SENATOR WAYNE ALLARD

Senator ALLARD [presiding]. Thank you, Mr. Chairman.

I want to thank you for holding this hearing. I appreciate the opportunity to learn more about the Administration's Fiscal Year 2004 Budget request and legislative proposals for the Department of Housing and Urban Development.

As Chairman of the Subcommittee on Housing and Transportation, I have a keen interest in this issue, and while housing is often an overlooked portion of our jurisdiction, I believe it is one of the most important. And I am particularly pleased to be able to have this discussion.

I believe this is a responsible budget. As I have noted on many previous occasions, Government agencies should be judged by their results, not by the size of their budgets or the number of new programs. The success of HUD will be determined by how many people it helps to achieve self-sufficiency and not by how much money it spends. By integrating performance and budget, the Administration has taken concrete steps toward providing real help while establishing accountability.

Unfortunately, some still continue to focus only on money, as if compassion is measured by a percentage increase or new dollars can be the only mark of a high priority. More Government spending does not necessarily mean that more people are served, and it certainly does not mean that anyone is better served.

I would like to commend the President and Secretary Martinez for a number of initiatives in the budget, particularly the focus on minority homeownership. I am pleased to join forces with them to enact the American Dream Downpayment Initiative, which I plan to reintroduce in the next few weeks.

I hope my colleagues on the Banking Committee will join me in this effort to help thousands of low-income and minority families realize the American Dream of homeownership.

As we all know, homeownership is an important means for these families to build wealth and prosperity. I am also pleased that the Administration has proposed the consolidation and streamlining of a number of programs. For many years, HUD has suffered because its leadership failed to focus on the Department's core mission—to provide decent, safe, sanitary, and affordable housing.

While there may be a need for a number of different programs to address the various aspects of this mission, there was a proliferation of inefficient boutique programs. These yielded hundreds

of different programs at HUD, many of which are unauthorized, duplicative, or outside of the core mission.

The Department has sorely needed to focus on the core mission through consolidation and streamlining and I am very pleased that Secretary Martinez is providing that leadership. I look forward to receiving more details on the legislative proposals.

I want to conclude by welcoming Secretary Martinez back to the Banking Committee. I know that your schedule is very full and so, I appreciate your taking the time to be here. I am sure that your comments will be helpful as the Committee considers the Administration's proposal. I look forward to hearing your testimony.

Senator Dole have you had an opportunity to speak?

COMMENTS OF SENATOR ELIZABETH DOLE

Senator DOLE. Thank you very much.

Mr. Secretary, I certainly want to welcome you to the hearing. Thank you for the outstanding work you are doing as Secretary.

I have a statement I would like to put into the record. But in the interest of time, I believe I will submit it, and wait for questions.

Senator ALLARD. Without objection, so ordered.

Secretary Martinez, welcome. We are all looking forward to hearing your comments.

STATEMENT OF MEL MARTINEZ SECRETARY

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary MARTINEZ. Mr. Chairman, Ranking Member Reed, and Members of the Committee, it is a pleasure to be back with you. Thank you for your invitation to talk about our 2004 Budget, as proposed by President Bush for the Department of Housing and Urban Development.

I would like to offer a full version of my remarks for the record, if I could, and just try to summarize in order to save more time for the questions.

Senator ALLARD. Without objection, so ordered.

Secretary MARTINEZ. Thank you, Mr. Chairman.

During this time of uncertainty in the world, as the Administration continues to focus on strengthening the U.S. economy, creating affordable housing options remains a critical component of the President's agenda.

HUD's proposed \$31.3 billion budget offers new opportunities for families and individuals, and minorities in particular, seeking the American Dream of homeownership. It offers new opportunities to increase the production of affordable housing and expand access to housing free from discrimination.

It provides new opportunities for strengthening communities and in generating renewal, growth, and prosperity with a special focus on ending chronic homelessness.

Our budget creates new opportunities to improve HUD's performance by addressing the internal management problems that have long challenged the Department.

I know that this in particular is the subject of great importance to Members of the Committee and I want you to know that I share the concerns of the Members, and that this Administration has

been, and continues to be, committed to improving management. I am pleased to say that we are making progress in that area and I will return to this subject later in my testimony.

Let me begin by discussing homeownership.

The President has committed this Nation to creating 5.5 million new minority homeowners by the end of this decade. Several new expanded proposals in the Fiscal Year 2004 Budget will increase the availability and production of affordable homes and help more families to come to know the security of homeownership.

As a first step, HUD proposes to fund the American Dream Downpayment Initiative, which, as you just indicated, Chairman Allard, you have so kindly agreed to introduce for us. And we will fund this Initiative at \$200 million in this budget year. The Initiative will help approximately 40,000 low-income families with a downpayment on their first home. We also reach out to low-income families hoping to make the move into homeownership by allowing them to put up to a year's worth of their Housing Choice Voucher assistance toward a home downpayment.

To promote the production of affordable single-family homes in areas where such housing is scarce, the Administration is proposing a tax credit of up to 50 percent of the cost of construction on new homes or the rehabilitation of an existing home.

HUD is very committed to helping families understand the home-buying process and how to avoid the abuses of predatory lending. The Fiscal Year 2004 Budget will expand funds for counseling services from \$40 million in fiscal year 2003 to \$45 million. This will allow us to provide 550,000 families with home purchase and homeownership counseling and about 250,000 families with rental counseling.

Our budget also strengthens HUD's commitment to SHOP, the Self-Help Homeownership Opportunity Program. SHOP is a key initiative that turns low-income Americans into homeowners by partnering with the Federal Government with faith-based and other community organizations. The program is funded at \$65 million, which will support the construction of 5,200 homes.

So along with boosting homeownership, HUD's proposed 2004 Budget promotes the production and accessibility of affordable housing for families and individuals who rent. We achieve this in part by providing States and localities with new flexibility and additional resources to respond to local needs.

The HOME Investment Partnerships Program is a major tool for helping communities meet housing affordability needs. As reflected in this year's program, the HOME program is successful because it is well-managed and its flexibility ensures local decisionmaking. Our 2004 Budget provides a 5 percent or \$113 million increase over amounts that were proposed for the HOME program in fiscal year 2003. Overall, HOME will make nearly \$2.2 billion in funds available to State and local grantees to help finance the cost of land acquisition, new construction, rehabilitation, downpayment, and rental assistance.

To ensure greater flexibility within the Section 8 Housing Choice Voucher Program, and to empower States to make the decisions based on local needs, we propose converting the voucher program to a State-run block grant called Housing Assistance for Needy

Families. Turning over administration of the program to the States is the appropriate way to ensure the best service for needy families, while improving its management by putting it closer to the people it is intended to serve.

Our Budget includes legislative proposals that would substantially improve living conditions within public housing communities by giving public housing authorities new ability to leverage private capital.

The Public Housing Reinvestment Initiative would authorize HUD to replace public housing subsidies for development or for portions of developments with project-based voucher assistance. Our Budget also adds a partial loan guarantee that will cover up to \$1.7 billion in loans.

This financial restructuring will allow PHA's to secure private financing to rehabilitate or replace aging properties on a property-by-property basis, as other affordable housing owners do if they are privately owned.

The Public Housing Reinvestment Initiative reflects our vision for the future of public housing.

For 10 years, the HOPE VI program has been an avenue for funding the demolition, replacement, and rehabilitation of severely distressed public housing. Established to revitalize 100,000 of the Nation's most severely distressed public housing units, the program has already funded the demolition of over 115,000 such units and the production of more than 85,000 revitalized dwellings.

With the 2002 and 2003 appropriations, we anticipate being able to demolish an additional 15,000 units and replace 15,000 more. Just this week, we began notifying those communities that have been awarded HOPE VI grants for the 2003 cycle. With the \$2.5 billion already awarded but not yet spent, and an additional \$1 billion to be awarded in 2002 and 2003, HOPE VI will continue to serve communities well into the future.

When HOPE VI was first created, it was the only significant means of leveraging private capital to revitalize public housing properties. But that is no longer the case. Today, HUD has approved bond deals that have leveraged over \$500 million just in the last couple of years. PHA's can mortgage their properties to leverage private capital.

In Maryland and Alabama, the PHA's are combining efforts to leverage their resources and assets to attract private capital. Some cities, like Chicago, are committing hundreds of millions of dollars of their own money to revitalize public housing neighborhoods.

HUD is also seeking additional tools from Congress, such as the Public Housing Reinvestment Initiative. HOPE VI has been a successful program that was created to serve a specific purpose. It is time to look to the future and pursue new opportunities, working with the Congress, as we together look for creative ways to learn from HOPE VI and move to new areas of opportunity for urban revitalization.

Regulatory barriers on the State and local level have an enormous impact on the development of rental and affordable housing. Within the 2004 Budget, HUD builds on its commitment to work with States and with local communities to reduce these regulatory barriers.

Through the new Office of Regulatory Reform, HUD will spend an additional \$2 million next year to learn more about the nature and extent of the regulatory problem and how to reduce the effects of excessive barriers to rental and affordable housing.

The President has made it a top priority to reduce costly regulatory barriers on the Federal level and we are committed to doing so at HUD as well.

State and local governments depend upon HUD grants to support community development projects that revive troubled neighborhoods and spark reinvestment and renewal. In fiscal year 2004, HUD will strengthen its core grant programs by ensuring that grantees have even greater flexibility to address locally determined priorities.

The Community Development Block Grant Program will provide \$4.4 billion in funding to meet local needs in more than one thousand jurisdictions. In 2004, HUD will make the program more effective by studying ways to reward communities that commit to results-oriented, outcome-based performance plans.

Through the Fiscal Year 2004 Budget, HUD will strengthen its effort to protect the Nation's most vulnerable—those individuals and families who truly need Government assistance: The budget fund services benefiting adults and children from low-income families, the elderly, those with physical and mental disabilities, victims of predatory lending practices, and families living in housing contaminated by lead-based paint hazards.

I want to highlight this Administration's unprecedented commitment to those who have no place to call home.

Across the scope of the Federal Government, funding for homeless specific assistance programs increases 14 percent in the Fiscal Year 2004 Budget proposal. This Samaritan Initiative is an important new element of the Administration's strategy to end chronic homelessness within a decade.

The Samaritan Initiative includes a proposed competitive grant that would be administered jointly by HUD, the Department of Health and Human Services, and Veterans Affairs. For 2004, HUD provides \$50 million for the housing component of this initiative, while HHS and VA will each provide \$10 million for services such as substance abuse treatment and primary health care.

To increase the community's flexibility in combatting homelessness, the 2004 Budget proposes to consolidate the current three competitive homeless assistance programs.

Finally, in recognition of the effectiveness of the recently reactivated Interagency Council on Homelessness, the Department will provide \$1.5 million to operate the Council in the fiscal year 2004, which represents a 50 percent funding increase.

HUD has made great progress over the past 2 years in making the Department work better for the taxpayers and for every American who seeks a place to call home. HUD fully embraces the President's Management Agenda and is on target to meet its challenging goals of improving overall efficiency and effectiveness.

The steps the Department has taken thus far have gone a long way to restoring the confidence of the Congress and the public in HUD's management of its financial resources.

I can assure the Members that this commitment to the highest standards of ethics, management, and accountability will continue during the coming fiscal year.

I would like to thank each of you for your support of my efforts and I welcome your guidance as we continue to work together.

The steps that the Department has taken thus far have gone a long way toward restoring the confidence of the Congress and the public in HUD's management and the way we manage our financial resources.

I would like to thank each of you for your support and I look forward to our continued effort to work together.

Thank you very much.

Senator ALLARD. Thank you, Mr. Secretary, for your comments and your remarks.

I think an agency or a department needs to be aware of the needs of the American people as they emerge. I think we have a group of individuals out here whose needs are emerging. We need to think about how we are going to deal with these groups. These are the members in our reserve forces and our National Guard units. These are volunteer individuals who are being called up to serve this country who have home payments they have to make. They have to leave their jobs. Their employers have to make sacrifices, too.

And as the threat of war with Iraq amounts to thousands of armed forces and National Guard units have been activated for duty, both domestically and in the Middle East, many of these troops may face financial difficulties because they have been called away from their jobs to serve their country.

I understand that the Soldiers' and Sailors' Civil Relief Act of 1940 provides service men and women with financial relief on their rent and their mortgage payments and an additional provision limits the interest rate to 6 percent. What additional resources will be available for those serving our Nation so that they do not risk foreclosure?

Secretary MARTINEZ. Mr. Chairman, I think, based on the current state of the law, that those are the limits of what we can do.

Post-nine/eleven, when the war on terror began, I joined with Secretary Rumsfeld in initiating a reactivation of the Soldiers' and Sailors' Civil Relief Act. And that did provide the kinds of assistance that you describe.

However, in the current environment, where mortgage rates are at 6 percent on a very competitive basis, perhaps it would be one possibility to consider, and I think you are addressing a very, very important point, the fact that perhaps 6 percent as a minimum or as a benchmark would not be appropriate. Perhaps something lower than that would be the kind of significant help that I believe the Act intended to have.

So, I would welcome any suggestions from the Committee of how we might work together to deal with this new reality.

I think you are correct that these people are giving of themselves and, in reality, are under financial hardship. I have heard of very encouraging things going on in certain communities. I know the homebuilders in Central Florida, for instance, are banding together to provide home repair services and things like that at no cost to

those service men and women who have been called to service, but the families that are left behind are still left with a leaky roof or a heater that doesn't work. And they are providing, as a community service, just on an ad hoc basis, some assistance.

More can be done, and I would welcome the opportunity to work with you as we think through this problem and how we might be able to provide assistance, especially working with the Department of Defense, as to how they might identify the problem areas that families are encountering.

Senator ALLARD. There is a need here for some interagency communication. I am glad to hear that as part of your comments.

I was going to ask you if there was any other tools other than perhaps reducing that 6 percent that you could think of. It doesn't sound to me like you have any at this point.

Secretary MARTINEZ. I do not have at this point.

Senator ALLARD. It sounds like you are looking for some guidance from this Committee.

Secretary MARTINEZ. Right. Also, actually, I think we probably should talk to the people in the Defense Department as to what they encounter as these forces are activated because I am sure that there are some systemic problems that they all may encounter.

So, I would propose to get with my colleagues in the Defense Department and then get back to the Committee with perhaps some other ideas of how we might be of assistance.

Senator ALLARD. I think we need to give that some thought and see what we can do because obviously, some Americans are in need, but they are also doing a huge service for this country and we shouldn't forget them.

As you know, I have been very supportive of efforts to consolidate and eliminate programs that are duplicative or troubled. I believe we should streamline Government programs and make them as cost-effective and efficient as possible.

Accordingly, can you please explain the rationale behind placing environmental clean-up programs such as BEDI under the jurisdiction of the Environmental Protection Agency rather than at HUD? And can you also comment on the proposed elimination of the HOPE VI program?

Secretary MARTINEZ. First, on the BEDI program. Essentially, it was a \$25 million program. The Environmental Protection Agency has had, for a long time, a much larger program of environmental clean-up on economic development and their funding levels, I believe, are significantly higher than those at HUD.

It was felt as an Administration-wide policy that combining these programs under one roof would be a better way to manage them.

I would argue that perhaps the better place to combine them might be at HUD. I did not win that argument, but in any event, I believe we do have a way at HUD of dealing with communities in a very comprehensive way. And while environmental clean-up perhaps is more suited to the EPA's mission, the economic development portion probably is better suited to what we do at HUD.

In any event, it was felt that the better part of good judgment was to combine all of these in one place, which I think is sound policy, and that our small program of only \$25 million would be

better served by going together with the remaining programs that EPA has, which are much larger.

On the issue of HOPE VI, I alluded in my opening comments about that. I believe HOPE VI has been a largely successful program. I believe there are some things about HOPE VI that have given us all concern—the displacement of families, even during the construction phase, but certainly in long-term, whether there are not enough people that are in assistance situations and living in a given project when the project gets redeveloped, still have an opportunity to live there, is a concern.

There are a number of other concerns about it. But I believe, overall, it has been a very, very successful program and it has done a lot of good.

As we look to it, we currently have an incredible amount of the monies that were—in fact, about 50 percent of the monies that have been allocated to projects have yet to see the light of day. It has taken a long time for these projects to get off the ground and to actually come to fruition.

For instance, in Chicago, we continue to work with them, and although they are making steady progress, there is still a significant amount of dollars that are funded to the Chicago Housing Authority that have yet to be developed.

So, we believe that this is a good time, in a time of significant budgetary constraints, and at a time when difficult choices had to be made, that perhaps because of the continuing nature of the existing funding levels to HOPE VI that are still out there, that it was a good opportunity for us as this program came for reauthorization, that we should jointly come up with what should be the future of the type of HOPE VI program, how we should look to the future to revitalize communities to continue to improve public housing.

We have put forth some private-type initiatives I believe have merit. But I do think that we need to continue to work together to look at how we revitalize public housing, how we revitalize urban areas, utilizing the model of a HOPE VI, but also learning from some of the areas where we could all agree we would identify as shortcomings. And so, it is a competitive grant program. There is no one out there currently expecting a HOPE VI, other than those who are in the current process, or maybe even into next year.

And so, we felt like, in a time of making difficult choices, this was a choice that was reasonable to make. As the program was up for reauthorization, we think we should stop and take a good look at where we are on something like a HOPE VI, and we should determine where we would want to take it into the future.

We intend to have proposals to you in the coming months on some ideas that we would have of how to reinvigorate an urban revitalization program like a HOPE VI.

Senator ALLARD. I was going to call on Senator Reed next for questions, but we have a couple of Members, Senator Reed, that have shown up.

Senator REED. Let me yield to Senator Sarbanes.

Senator ALLARD. Senator Sarbanes and also Senator Carper. We will see if they would like to make an opening statement and then we will come back to you.

Senator REED. Fine, Mr. Chairman.
 Senator ALLARD. Senator Sarbanes.

COMMENTS OF SENATOR PAUL S. SARBANES

Senator SARBANES. Mr. Chairman, I will defer my statement. I think I come after Senator Corzine. I will wait until then.

Senator ALLARD. Okay.
 Senator Carper.

COMMENTS OF SENATOR THOMAS R. CARPER

Senator CARPER. Thank you very much, Senator Allard.

I want to welcome Secretary Martinez. We are grateful that you are here and I will just wait until it is my turn to ask questions. Thank you.

Senator ALLARD. We are back to you, Senator Reed.

Senator REED. Thank you, Mr. Chairman.

Again, Mr. Secretary, thank you so much for your testimony today. Also thank you because Newport, Rhode Island, was one of those grantees for a HOPE VI grant. That brings me back to the whole issue of HOPE VI.

You have said it is a worthwhile program. My understanding is that your Department had to make some difficult decisions and turn down some very worthy requests. So the need is still out there. I wonder again why this program that has demonstrated success is being zero-funded?

Secretary MARTINEZ. Well, we have a situation where the program is up for reauthorization. We have about \$2.5 billion that still remains unexpended, another billion that will be coming through the next two cycles, the ones that your area in Rhode Island is benefiting from, and then still next year to come.

We have only had 14 out of 165 projects that have been completed to date. More than half, as I said, of the \$4.5 billion that have been allocated remain unexpended.

So, we still see that, although it has great promise, the promise has yet to be fulfilled. And that in a difficult budget cycle, in a time when we had to make difficult choices, we also felt like we should take a moment to look at what should be the future of a program like this and where we should take it into future years in terms of dealing with the distressed public housing of America.

I know that there continue to be needs. There is no question but that is true.

It was established in 1992. It was supposed to demolish 86,000. We have more than funded that, and then some. So it just seems to me that it is one of those programs that had a beginning, a middle, and now this is the end of it, and we should think together about how we approach it into the future.

Senator REED. One of the concerns I have is that there doesn't seem to be anything that will follow on, and particularly when it comes into the context of the public housing authorities with their significant backlog in repairs that they have to do, let alone this type of innovative mixed-use, mixed-income housing that was part of HOPE VI. Was there any thought to taking the HOPE VI funds and simply putting them back into the backlog for public housing repairs?

Secretary MARTINEZ. No, sir, that was not considered.

Senator REED. Well, again, it just seems that we had a program, HOPE VI, that was operating effectively. Even though the money was rolling out slowly, the projects were worthy and the vision was good. And now, we have not simply shifted funds to another approach, we have just taken the money off the table.

Let me pick up another issue with respect to public housing, Mr. Secretary. And that is, I wrote, along with many colleagues, to you urging HUD to restore some of the funding to PHA's lost because of the \$250 million shortfall in the operating fund. At the time of the letter, I understand that you did not want to increase the PHA's allocations above 70 percent of their needs until the fiscal year 2003 bill was complete, the appropriations bill, and funding was assured. Now that we have passed the bill a few weeks ago, have you increased the share of funding available to PHA's?

Secretary MARTINEZ. Yes, sir, we have. We are grateful that the Congress allowed us to maneuver the situation to a point where we were able to do that. And so, we have been able to fund, or will be in the process of funding what we believe will be very close to a 90 percent allocation to all public housing entities that are in line for those funding levels.

So the initial assessment was based on the status of the budget situation. But clearly, we now are able to forecast and confidently predict that we will fund approximately 90 percent, give or take, in that range.

As you understand, this was a long-term fiscal deficiency in the Department that we felt was necessary to try to correct.

And in doing so, we fell into a shortfall problem. But the funding level at a 90 percent level is not dramatically atypical if you look at a 10-year history of public housing funding from what has occurred over a period of time. Some years it has been 100 percent. The exception rather than the rule has been 100 percent. Most years, it has been somewhere between 90 and 100 percent funding.

Senator REED. Are we going to have this same problem this coming year, Mr. Secretary?

Secretary MARTINEZ. No, sir. In fiscal year 2004, we will not see that problem occur and, in fact, part of what I am very pleased to be able to report to you is that we have fixed the problem that had been carried over for a number of years and we have taken care of it. I do not believe that we will see this problem arise into the future.

Senator REED. What level do you anticipate funding public housing authorities, the operating subsidy?

Secretary MARTINEZ. For the 2004 fiscal year, we anticipate 100 percent funding.

Senator SARBANES. When are you going to the 90 percent?

Secretary MARTINEZ. That will be for the 2003 fiscal year.

Senator SARBANES. Yes, but when are you going to do it?

Secretary MARTINEZ. Within 4 weeks, I am told.

Senator REED. My time has expired.

Senator ALLARD. Senator Crapo.

Senator CRAPO. I will pass at this point, Mr. Chairman.

Senator ALLARD. Senator Corzine.

Senator CORZINE. Thank you.

First of all, Mr. Secretary, I appreciate your testimony. I want to reiterate the questions that my colleague from Rhode Island spoke to with regard to HOPE VI. This has been an extraordinarily successful program, I think by the assessment of HUD, and outside objective analysts about changing the lives of individuals that are associated with these projects.

I think you are familiar with the lowering of poverty rates, unemployment rates, people off welfare, all those things that would be objective standards of quality of a program.

And it is hard for me to understand why we have something that is working as well as this, particularly in the context of moving away from distressed public housing. I feel a little bit like I did last year about the public housing drug programs.

I hope that we are not cancelling programs that a lot of people feel have had great success, zeroing-out programs. I know that you are working through this. I just want to be on record that this HOPE VI effort is something that I think, on a bipartisan basis—as a matter of fact, your own language in most testimony over the last period of time that you have been the Secretary, has been very supportive of this. And this seems inconsistent with many of those remarks.

Second, on the Drug Elimination Program, last year, we made a very substantial argument that the money that was being zeroed-out of that program was going to be made available in other areas through expenditures. Can you bring us up to date whether that is actually taking place, and how it is taking place?

Secretary MARTINEZ. What we have done is allow the housing authorities to utilize the current and ongoing operating subsidy that they receive. It was increased by \$250 million, almost 100 percent of the amount that was in the Drug Elimination Program.

We have allowed them to utilize that subsidy money for those kinds of programs that they were doing before in the drug elimination arena if they were good and successful programs.

Senator CORZINE. Have you taken surveys to the local public housing authorities to address whether the money is being used in those ways or in other ways to assure that the purposes for which I think many people had argued on both sides of the aisle that the Drug Elimination Program was positive for, there were some complaints about specific activities—gun registration programs and things.

Secretary MARTINEZ. Right. Local authorities have the discretion to utilize the funds as they see fit. We do not survey their utilization of it, but it is available to them if they make the decision to utilize them for a drug program if they believe is successful.

In making their choices that they have to make, anybody has to make, in deciding how to utilize funds, they are capable of doing that if they wish to do so and it is purely a local decision.

Senator CORZINE. Do you think it is no longer an issue that HUD should be addressing?

Secretary MARTINEZ. No. I believe it is important. Public safety in public housing is an important issue. I believe it has its roots and its solutions at the local level.

We do provide a fairly—well, one would argue whether it is adequate or not—but the levels of funding and the operating subsidies

that we provide to local public housing, which was increased to an amount equal almost to the amount of the Drug Elimination Program, allows them to utilize it in that way if that is what they choose to do.

We would also encourage public housing authorities if they have a local public safety problem or a drug problem, that it is the responsibility of local mayors and local public safety agencies to not disregard public housing residents as something akin to second-class citizens not deserving of public safety protection and not deserving of other local programs that do drug elimination or whatever the program may be.

So, I think a concerted effort working with local communities is the way to approach the problems that residents of public housing may be affected with.

I think there is too much of a segregating effort in any community that has a substantial amount of public housing. I think those people need to be integrated into the mainstream of life of their communities.

And people who live in public housing should have every right to police protection that every other citizen in that community has.

Senator CORZINE. Not at this point, but after the hearing, I wonder if I could get some specifics about how that \$250 million that you suggested was being spent on programs that were the same, actually occurred.

Secretary MARTINEZ. I would be happy to provide that.

Senator CORZINE. We had a hard time piecing that together.

Are you familiar with the Ernst & Young discussion with regard to the dividend tax cut proposal that the President has put down and its potential for causing a 35 percent drop or so in the number of affordable rental units?

Secretary MARTINEZ. I am aware that the Ernst & Young report describes those kinds of figures and reaches those conclusions.

Senator CORZINE. And also potentially undermines the President's own single-family tax credit proposal.

Secretary MARTINEZ. I know that those are the conclusions of the Ernst & Young report.

Senator ALLARD. The Senator's time is expiring.

Senator CORZINE. Have you had time to study and see whether you have different views or different comments on it?

Secretary MARTINEZ. Senator, I have looked at the report and not thoroughly studied it yet because I just received it a couple of days ago. But in fact, those analyses of that report would have to come from the Department of the Treasury, who really does tax policy.

At HUD, we do not do tax policy. So in terms of dealing with the specifics of the report and the issues that it raises, I believe even in those areas where it deals with housing, that Treasury would be the better place to have a comprehensive response to the specifics of the tax policy.

I do believe that it is the position of the Administration that the impact described in that report is greater by that report's judgment than those that the Department of the Treasury would forecast in terms of the impact on housing.

Senator CORZINE. We will come back.

Senator ALLARD. Thank you, Senator.

I am going to be fairly tight on the time because I want to give everybody an opportunity to ask one question. We all have a lot of committees going on at the same time. Then we will have another round of questioning and you can come back if you want.

Senator CRAPO, you passed. Do you have another question that you want to bring forward?

Senator CRAPO. I would like to ask some questions at this point if I could, Mr. Chairman.

Senator ALLARD. Go ahead.

Senator CRAPO. Thank you, Mr. Chairman, and Mr. Secretary, I appreciate your being here with us today.

I too have some concerns about the budget. There has been a lot of discussion already with regard to the HOPE VI program and the fact that it has not been funded. But I am concerned about HUD's responsiveness to the Congress and in particular, some of the other programs as well that have been zeroed-out.

For example, one of the concerns that is very important to me is the Rural Housing and Economic Development Program that is scheduled to have no funding at all in the Fiscal Year 2004 Budget.

I would like to ask you to explain to me why that program is not receiving the funding that it has received in the past. And if we have time, I want to go on to the Brownfields issue as well.

Secretary MARTINEZ. In regards to the rural housing program, Senator, every year that I have been at HUD, and I think even perhaps from years before that, it has been the judgment of the Office of Management and Budget that it is a program that belongs in the Department of Agriculture and not at HUD. And so, they consistently zero it out in the budget cycle. Congress consistently funds it and we move on.

I met with Senator Bond a few days ago and he is particularly concerned about that as well. I understand your concerns. It is just a matter of basic policy judgments that are made by the Administration that it is a program that should be better managed from the Department of Agriculture.

Senator CRAPO. Did the Department propose funding for this in the Agriculture budget, though?

Secretary MARTINEZ. I am not sure if that is the case or not. I am sorry. I cannot answer that.

Senator CRAPO. You can see the concern there.

Secretary MARTINEZ. Sure.

Senator CRAPO. If it is zeroed-out in HUD's budget, and if it is not put into the Agriculture budget, then the Administration is basically proposing to take it out.

I do believe I agree with Senator Bond, and I suspect many of the other Senators, that this is a very critical part of our housing need in this country. Idaho, for example, has a tremendous need for rural housing support. I would encourage you to reevaluate whether to zero-out that budget.

What about the Brownfields Redevelopment Program? It also has been zeroed-out.

Secretary MARTINEZ. The program is funded in the EPA budget. That has been transferred over to the EPA and it was funded in the EPA budget. It was felt that it should be consolidated in one place for better management of the program, with the funding all

in one location, rather than have some at HUD and some at the EPA. But that is funded in the EPA budget.

Senator CRAPO. Do you know whether the levels of funding were equal as they transferred over from HUD?

Secretary MARTINEZ. Yes.

Senator SARBANES. On Brownfields?

Secretary MARTINEZ. On Brownfields. It is a \$10 million increase. It is a drop from \$25. So, I was wrong on that. I thought it was at the same level, but it apparently is only at the \$10 million level.

Senator CRAPO. So it was at \$25 million and now it is down to \$10 and transferred to the EPA.

Secretary MARTINEZ. That is correct.

Senator CRAPO. Well, I will conclude my questioning with that. It is just that I am concerned that some of the important priorities that Congress is setting are not being addressed in the budget.

I am sure we will have opportunities to address this at a further point. But I really would encourage you to go back and take another look at the Rural Housing Economic and Development Program because that is a critical program to States—I think every State has rural areas, but particularly a State like Idaho.

Senator ALLARD. Senator Dole.

Senator DOLE. Mr. Secretary, let me repeat that from all I have heard and read, you are doing an excellent job in heading the Department. However, the challenges that you have faced at HUD, I know, have been daunting and it is hard for some to gauge the quality of the work that you and your team bring to the table with an agency that has had so many fundamental problems.

Clearly, the General Accounting Office, the HUD Inspector General have acknowledged the improvements that you have instituted in many areas where there have been issues that have plagued HUD for some time. According to the GAO, HUD has designated programmatic and financial management information systems as one of the Department's major management challenges.

Many of the problems that HUD seems to be facing right now and struggling with seem to be caused by inadequate information technology systems. For instance, the issue of the operating subsidy shortfall announced in January was attributed to an internal financial management system failure.

According to budget documents, \$300 million has been spent in each of the last 3 years for information technology. That is \$900 million. Can you tell us if this \$900 million has really moved us closer to resolving these problems? And how much more do you estimate would be needed to fix the problems?

Secretary MARTINEZ. Senator, thank you for your comments.

I think we have made very significant progress in information technologies at HUD. I must say that I believe that pattern was begun even prior to my arrival at HUD. But it is something that has been dramatically different from the situation that existed just a few years ago.

I believe the funding that has been provided by the Congress for us to address that issue has, in fact, provided us the opportunity to fix something like the operating subsidy shortfall in the public housing program where we do not think that we will have that problem in the future ever again.

We believe the commitment that has been made to adequately fund those issues at HUD is paying off and making a difference.

In terms of future funding needs, I am not prepared to go beyond what the current budget provides. But over the next 5 years, we are talking about \$380 million. We also are talking about modernization efforts that will reduce the cost in 2007 and 2008. I believe that the levels you suggest will continue for the next 5 years. But we do believe that in 2007 and 2008, we will begin to reduce the cost of continuing our IT upgrading.

I will be glad to provide you a little more detailed information in a written question if you would like.

Senator DOLE. Fine. Thank you. I would appreciate that.

According to the January 2003 GAO Report, the Department is seeking to further reduce the number of noncompliant computer systems from 17 to 14 in this fiscal year 2003, and then you would hope to be fully compliant with Federal financial standards, all systems compliant by 2006. Are you confident that that 2006 goal is realizable? What steps are being taken to reach that goal? Who will be accountable?

Secretary MARTINEZ. Our management people are very much focused on continuing to improve those financial systems. We cannot assimilate them all into one system. We are always going to have to have a multiplicity of systems because of the very different tasks that we accomplish at HUD, with FHA being in one area and very different issues as it relates to maybe personnel, payroll types of systems.

So, necessarily, we are going to have different systems.

But we believe that the consolidation that has taken place has been very productive, very positive. It has allowed us to meet now audits on a recurring basis that have had no serious deficiencies or flaws. That is 2 years running, which I am very proud to see because I do not think that that had ever occurred in recent years at HUD.

So those kinds of progress that we have seen in the past, I think can continue and enhance.

I would love to have our CFO, Angela Antonelli, who is here, and probably very anxious to answer these questions more fully than I am able to, and Vickers Meadows also, the Assistant Secretary for Administration, to more fully brief you on some of the details of these efforts because I think we are doing really some very good things and making substantial progress in what I think, by anyone's admission, it would be systemic problems at HUD for many years, that we are really putting behind this.

Senator DOLE. Yes, I understand that.

Senator ALLARD. Senator Dole, I think that is a good point that you bring up. I think in our Subcommittee on Housing and Transportation, it is something that we need to follow up with. I would also be interested in getting a briefing on this as we move forward because we do have that 2006 deadline.

Senator DOLE. Right. Thank you.

Senator ALLARD. Senator Sununu, do you have a statement?

COMMENTS OF SENATOR JOHN E. SUNUNU

Senator SUNUNU. I do not have a statement. I have just a few questions at the appropriate time.

Senator ALLARD. We will put it there.

Senator Sarbanes.

Senator SARBANES. Welcome, Mr. Secretary.

Secretary MARTINEZ. Senator.

Senator SARBANES. Mr. Secretary, I like you very much, personally. I wanted to say that right at the outset.

[Laughter.]

Secretary MARTINEZ. This is not off to a good start, Senator.

[Laughter.]

Senator SARBANES. I still remember your confirmation hearing when we discussed the work that you had done in Orlando, and my perception of a commitment you had to help people who weren't able to make it, and a genuine concern about affordable housing. But somehow, in the internal workings of the Administration, you are really getting jammed into the corner in terms of the resources you have with which to address the challenges that confront you.

It all came home to me as I looked over this budget request for the fiscal year we are going into. I am quite concerned about a number of areas which I hope to explore with you this morning.

Now, presumably, the people lined up behind you there in the seats are supporting you to the hilt. I would certainly hope so. However, I can hardly say that about the OMB. And there is always a struggle and tension between the Department and the OMB, as we well know.

But I do not see how HUD is going to do its job given the erosion that is taking place in your budget. And that becomes doubly significant when we realize that so much of what is done in housing and community development requires a partnership between your Department, the State governments, the local governments, the nonprofit sector, and the private for-profit sector, because a lot of the programs have been arranged in a way that all of these interests interrelate.

So the end result is often dependent on HUD funding, the HUD catalyst or the HUD glue to hold this all together. And these outside groups and governments really have to look to HUD to provide an infusion of funding, often at the outset, but certainly as the process moves along, in order to ensure success.

I want to explore with you some of these problems. I may have to use another round in order to do it, although I hope that some of this time will get attributed to an opening statement which I did not give.

It is our perception of the budget that the Section 8 vouchers are not being fully funded and that we are actually not going to be able to fund all vouchers in use.

Public housing is again taking a hit. The capital fund for repair of public housing units is being cut. And yet, there is a huge backlog in repairs. We have an inventory of public housing out there, and if it is maintained and repaired, it can continue to provide affordable housing.

Senator Crapo raised the issue about the rural housing, which seems to be going down the drain as best I can understand the

budgets. Although we are told to go look in somebody else's budget for rural housing funding, thus far, we have not been able to find it there.

It is a little bit like this EPA problem that just came up a minute ago. And while it is not a big amount of money, it is important.

For example, you are getting out of the business of Brownfields redevelopment. You tell us the EPA is going to do this, but HUD was doing it at \$25 million and they are going to do it at \$10 million a year, which is more than a 50 percent cut.

Others have talked about the HOPE VI program. Actually, I want to focus on that for just a moment. You approved yesterday, and we are most appreciative of it, the application from Frederick, Maryland, for a HOPE VI project.

Now this I think is a perfect example of how some HUD money can produce, once it works its way out of the system, a very significant infusion of resources in order to address the lack of affordable housing.

In this instance, we are seeking to transform two severely distressed public housing developments and their surrounding neighborhoods, the city, county, State, and private sectors all committed significant resources. The city contributed several off-site parcels of land to the project to build a community center, have a recreational facility and park, and fund infrastructure improvements.

They joined with the county in a tax increment financing district to support economic development and job opportunities.

The State committed tax credits to help raise private equity. It is calculated that a \$16 million HOPE VI grant, and you approved \$15 million, so I do not quarrel with you on that, but that that money will leverage an additional \$55 million—\$55 million—in non-Federal and private funds.

So, you put in \$15 million. We are going to get another \$55 million from other sources. We are going to put \$70 million into this community.

The proposal in the end was carefully worked out, had the support of the public housing residents that are in these distressed projects. It has the support of Interfaith Housing of Western Maryland, which is a very highly regarded nonprofit that works as a housing advocate. It has the support of the NAACP—it was all very carefully done.

This project will construct low-density public housing, homeownership properties, and market-rate rental units. Two-thirds of the current households will be able to remain in or return to the site. And in addition, provisions have been made so that the remaining tenants will be placed in existing public housing or provided with other units.

This project has been very carefully put together and I think that is why it merited your approval. But it seems to me a dramatic example of how the HOPE VI program can work.

Now, I listened as the others were asking you questions about this program and you said, well, we have a problem with relocation of tenants. If we have a problem, we should solve it. It was solved in this instance, apparently, and solved very well. It has also been solved in other successful HOPE VI projects.

You say that it takes a long time for the projects to be completed—well, that may be true. Sometimes it takes a while to put together this kind of community support and this kind of package. But there is example after example of where this program works very well. HOPE VI is getting rid of severely distressed housing. Housing that is depressing the neighborhood. We are drawing a lot of resources in. We marshal community support.

I do not quarrel with you that there are certain problems in administering the program. But it seems to me that it represents a very important initiative. And the way to go at it is not to simply drop the program and the initiative, but to tighten it up or improve it in terms of its functioning so you get the kind of results we see in communities around the country.

So on that one, let me ask why are we letting that program go by the boards? It is a tool that has been used and can be used to address these severely distressed neighborhoods where there is an absolute depressant effect on many of our urban areas and even not so urban areas across the country.

Secretary MARTINEZ. Senator, I understand that the program is not unsuccessful, and my comments were not directed at trying to suggest that it is not meritorious.

First of all, the backlog in the output was only to suggest to you that there is still a lot to be done in HOPE VI, that the time that it takes for these projects to get off the ground will still allow an awful lot of what you are just describing to take place over the next several years, with still two more rounds currently in the budget cycle that will take place as we go forward. That is a timeframe that we should utilize to see how we can continue to develop better ideas and other ideas of how something like a HOPE VI can continue to work.

It does take a long time for the projects to come together. The displacement of people, which was not an issue in Frederick, Maryland, because Frederick, Maryland, is not a large urban center. It is not the same experience that they had in Chicago, for instance, where there have been multiplicities of lawsuits from tenant groups or so-called those self-appointed representatives of tenants.

That is not to say it is a bad program. That is only to say that in a very difficult budget cycle, a program that was up for reauthorization, that it had concluded—as I said, it began in 1992 and it was to run for 10 years. This year, it was up for the reauthorization cycle.

It seemed to us that in making difficult choices, this was a place where we could begin to think anew and begin to think of how we could go forward with some program that would be patterned after the HOPE VI, but maybe yet even with better and more improved ideas.

Senator SARBANES. Well, what is that program?

Secretary MARTINEZ. I am sorry?

Senator SARBANES. What is that program?

Secretary MARTINEZ. Senator, we do not have that to present to you today.

Senator SARBANES. So, you are going to end the HOPE VI program that was held out there to eliminate the distressed housing, but there is nothing to replace it.

Secretary MARTINEZ. Not today.

Senator SARBANES. At least at this point. Is that correct?

Secretary MARTINEZ. That is correct.

Senator SARBANES. Do you advise your children to quit one job before they get another? As a matter of advice, would you say, or do you usually counsel them to make sure that they have another job lined up before they leave the one they have?

Secretary MARTINEZ. They usually do not leave a job with 50 percent of the funding that they were given for the prior job still unspent. They usually have spent all their money by the time the job is concluded.

Senator SARBANES. Well, as Jack Reed pointed out, you have all these projects all over the country, many of them meritorious. It is not as though you are lacking applicants with some merit. You can cite me an example of Chicago that has been tied up, but you have a lot of other places that are coming in with meritorious projects that you could move on.

Secretary MARTINEZ. I do not think there is any question, Senator Sarbanes, that if we did not have choices to make that were difficult in this budget cycle, that HOPE VI would not have been where it is today.

Senator ALLARD. Senator Sarbanes—12 minutes. I do not mean to be rude. I was going to call on Senator Carper, but we may have lost him. Let me go ahead and call on Senator Sununu and we will come back. I am sorry.

Senator SUNUNU. Thank you, Mr. Chairman.

I want to pick up briefly on that point, just so that I understand the financial ramifications and that I understand exactly where we are on HOPE VI.

Mr. Secretary, what are the unobligated balances for HOPE VI, the money that has been appropriated, but not obligated for the improvement revitalization of public housing demolition and identifying new units?

Secretary MARTINEZ. We have 14 projects of the 165 that have been completed. More than 50 percent, or \$2.5 billion, remains unspent.

Senator SUNUNU. \$2.5 billion.

Secretary MARTINEZ. Correct.

Senator SUNUNU. Is there any money that is going to be added to that over the next couple of years?

Secretary MARTINEZ. About another billion dollars will be added to that.

Senator SUNUNU. I think that is important because the suggestion that, suddenly, with the absence of a new appropriation in 2004, and we do not know if that is going to happen or not, but the suggestion of the absence of an appropriation in 2004 prevents us from being able to transition to a different program, prevents us from being able to continue part of the mission of HOPE VI, I think is inaccurate.

Senator SARBANES. Would you yield so that we can be very clear on that point?

Is that \$2.5 billion money that has been committed for projects that have been approved and not yet spent? Or is that \$2.5 billion you have on hand that could be used for newly approved projects?

Secretary MARTINEZ. There is \$2.5 billion that has been approved but unspent.

Senator SARBANES. That funding has been committed to projects. Secretary MARTINEZ. Committed but unspent.

Senator SARBANES. Yes.

Senator SUNUNU. It has all been obligated?

Senator ALLARD. They are obligated dollars. Is that correct, the \$2.5 billion?

Secretary MARTINEZ. That is correct. They are obligated dollars. There is \$500 million coming in the 2003 budget cycle that still is not committed. We have just committed half a billion dollars this week, and there is another half billion yet uncommitted. There is \$2.5 billion committed, but unspent.

Senator SARBANES. So if one of Senator Sununu's communities is putting together a HOPE VI application now, the only money available that they can compete for is the \$500 million that is in this year's budget. Is that correct?

Secretary MARTINEZ. In 2003, yes. In the 2003 budget. Now an additional source of funding may be if some community, by failure to act over a period of time, the monies might be recaptured.

Senator SARBANES. I thank the Senator for yielding, but I think there was an impression being given that there was \$2.5 billion available within the Department to commit for projects.

Senator SUNUNU. My first point is that there is \$3.5 billion available and your point is that there—\$3.5 billion in the pipeline and \$500 million, as you point out, is uncommitted, completely uncommitted at that point, so it is still available for competition.

The second point is that there is a legislative proposal, and I do not know that it is a good one or a bad one, but it is a legislative proposal, for the PHRI, the revitalization initiative that would involve access to private financing.

Again, I do not know if this is a good proposal or a bad proposal. It is a new proposal, and it is intended to provide access to private financing and encourage public/private partnerships to revitalize public housing.

I just think that those points are important to make, especially when, as was noted by others today, there are severe problems, management problems, backlog problems, and within the HOPE VI program.

Finally, I know and I understand, and I want everyone here to understand, that I recognize the value that HOPE VI has provided in a number of communities. And that shouldn't surprise anyone in the least. Even if it is a poorly managed, poorly designed, poorly constructed, and poorly implemented program, if you or I were spending \$500 million a year, we had darn well better be able to show some progress, some families, some communities, some areas of the country that have benefited by that \$500 million.

That doesn't mean that it is a good program or not a good program. It just means that we spent a tremendous amount of money. And the real questions we need to answer, and that I think the Secretary and his staff need to answer, is why is this not the best use of \$500 million to revitalize distressed areas, to demolish programs, to encourage private financing?

That is the burden that is on you and I would hope we would answer.

But it is not just a question of finding some community where we have spent \$10 million or \$50 million or \$100 million because, unfortunately, even the most poorly managed program is going to provide some positive results somewhere, even if the money has been spent inefficiently.

I also want to comment about the initiatives that were mentioned earlier, the programs that were eliminated in the budget in addition to HOPE VI, the Section 8 Loan Guarantees, Brownfields was mentioned, the Empowerment Zones are another example.

I simply want to offer the following observation.

I do not know whether all of these proposals or requests to terminate the programs are appropriate or not. I will comment about one, and that is Brownfields.

My intuition is that the Brownfields initiative belongs in the EPA. We passed good bipartisan Brownfields legislation last year. It increases funding for Brownfields initiatives to the highest level ever across the country. Yes, we have had a small Brownfields initiative within HUD. I think it is fair to argue that that Brownfields program is better managed, that those dollars will do more for more people and more communities if managed under the EPA.

Now that is my intuition. I do not know that that is necessarily right or wrong. But I do respect the fact that your proposals in these areas are designed to, at least, engage us in a debate and a discussion as to whether or not these programs are being operated and run in the right place and, frankly, whether or not they are the right programs to have today.

We shouldn't just keep appropriating money to the same programs because they are the programs that we have already run, and if we expect you to do a better job, if we expect to meet emerging needs and housing needs better, I would hope that you are at least engaging us in some debate and discussion about structuring programs, creating new programs and, ultimately, eliminating programs that aren't the best use of taxpayers' money.

An issue was raised earlier that I think you addressed on the problems in the operating subsidy, \$250 million.

It is my understanding that your response was that you intend to fund at 90 percent of the operating subsidy for 2003, and that you intend to avoid this problem in 2004. My question is, can you be more specific as to how you intend to avoid this problem again in 2004?

Secretary MARTINEZ. We became aware of a shortfall in the operating subsidy in the year 2002. We at that time informed the OMB and the Congress and the public housing industry. We believe that our management has now been able to put in place the types of oversight and the types of systems that will prevent a shortfall from occurring in the future. And we believe that we have solved this potential problem from ever occurring again.

I believe that by the management changes that we made and the systems that are now in place, that we have corrected what has been a long-term problem that was creating, frankly, a very bad accounting practice that was simply taking \$250 million from the

next year's money, just to cover the shortfall, and it was essentially deferring the problem to yet the next year.

Senator SUNUNU. So the funding levels you are requesting in this budget submission, coupled with the management changes that you describe, are enough to give you confidence that this problem will be entirely avoided in fiscal year 2004?

Secretary MARTINEZ. That is my confident answer to you.

Senator SUNUNU. Final question. Senator Dole mentioned the information technology initiatives. I appreciate the amount of money that has been put forward to try to deal with improvements in information technology.

One problem that I had become aware of and done some work on in the House when I was on the Budget Committee was the issue of overpayments in the Section 8 program that is the result of the lack of systems in place to confirm or to verify applicants' income.

The amount of overpayments at various points over the last 4 or 5 years have been anywhere from \$500 billion to \$900 billion a year. It would seem to me that this is an area where better management of information systems can make an enormous difference in order to make sure that you are not providing an overpayment. That gives you more money obviously to meet the Section 8 and the voucher needs that are out there, that we all know are out there.

To what extent have management changes or the application of information technology enabled you to address the income verification and Section 8 overpayments?

Secretary MARTINEZ. Senator, there has been an overpayment and underpayment issue. It has been an inaccurate payment problem, so it has been on both ends of the balance sheet. We have worked very diligently to try to correct those problems. I am not at liberty to give you the specific details.

[Pause.]

I am going to ask Michael Liu, if I could, my Assistant Secretary for Public and Indian Housing, to give you a more specific answer on that.

Senator SUNUNU. Thank you.

Mr. LIU. Senator, Secretary Martinez has put together a special team which has been in operation now for over a year at HUD to specifically address this important issue. We have progressed on a number of fronts.

Number one, we are in the process of developing a better system to assist our housing agencies both in public housing and Section 8, where they can deal with the up-front income verification issue of applicants to the programs. That seems to be the key problem that we have.

Number two, we are putting out a notice on the Section 8 and public housing side that will require public housing agencies to use State data on wage and income to compare with their information that they receive from applicants where that State information is available.

Number three, we are also engaging with the States around the country on getting agreements with them to share their information on wage and new-hire information with HUD, and we are going to distribute that to the housing agencies for their view.

Finally, we have gone out and provided intensive reviews of the largest public housing agencies and Section 8 agencies in the country to get a baseline of what their issues are, what their problems are, and are providing them technical assistance.

We have set a goal that by the end of fiscal year 2003, that we will have reduced our error rate by 15 percent. And further, by 2005, we would have reduced our problem by at least half of what it has been.

So, we have been very methodical and very focused on this issue.

Senator SUNUNU. Thank you very much.

Senator ALLARD. Now, I want to call on Senator Carper, but before I do, we had a discussion about the dollars being transferred to the Department of Agriculture. I had my staff look it up. There is \$25 million in rural housing in your budget, Mr. Secretary. We have noted that there was an increase on the agriculture business for rural housing of \$500 million. That is a 25 percent increase in that part of their budget.

So it sounds to me like in that particular instance, they have more than picked up the rural housing that was decreased in your Department over in the Department of Ag.

Secretary MARTINEZ. If I may add another answer to that, sir. In the area of Brownfields, I am also informed that the Brownfields, as Senator Sununu pointed out, under the EPA program, in this Administration, has increased from \$100 million to \$210 million. So while HUD had a very small program and maybe the transfer was only \$10 million, overall, the commitment, the budgetary commitment to Brownfields redevelopment has gone from \$100 million to \$210 million.

Senator ALLARD. Senator Carper.

Senator CARPER. Thank you, Mr. Chairman.

Before I finish, Mr. Secretary, and I am not going to ask you to do this initially, but you may be thinking about it, I want you to share with us some of the Administration's proposals as they pertain to increasing the opportunity for homeownership, which is one of my passions and I understand it is one that you and the President share, and I just want to better understand how your budget speaks to that concern.

Others have already raised some of the questions that I had.

We have one HOPE VI project in the State of Delaware. It has been a slow start-up. The project was approved about 3 years ago when I was Governor. Finally, we broke ground on it last fall and we hope that significant progress will be made on the project this year and it will be a good thing for Wilmington and for the families that are able to be there.

This is probably not a good analogy, but I am going to use the analogy of Superfund.

We toiled for years with Superfund, unhappy with how slow we were and how slow the process was in cleaning up Superfund sites. And finally, what seemed like 5 or 6 years, we figured out how to start cleaning up sites and have made a whole lot of progress in the last decade.

There is a lot still to go, but maybe part of what is going on here with HOPE VI is that it takes us and the local communities a while to get it, to figure out how to use HOPE VI and to move it

along. As I understand it, HUD's own goal for relocating residents I guess in HOPE VI was exceeded I think in the report sent last December, exceeded by about 5 percent.

I am told that HUD's own goal for constructing 5,500 units in 2002 was actually exceeded by 20 percent or by an additional 1,000 units. HUD's own goal of having 5,000 units occupied in 2002 was actually exceeded by a little more than 23 percent, with over 6,100 units occupied. I think those numbers were given to us by your own people.

So, you heard from a lot of other people here about HOPE VI. I believe it is a project or program that is worth preserving. And I am told that the Urban Institute is conducting a rather large study of HOPE VI to get recommendations for the continuation of the program or its improvement. I do not believe the results of that study are in, and I would just urge that we wait on that and to learn from that study.

Any comment?

Secretary MARTINEZ. No. I think that is an excellent idea. I am not here to trash HOPE VI, by the way.

Senator CARPER. I noticed.

Secretary MARTINEZ. I know that Senator Corzine remembers well my comments on it. It is a great joy to travel to communities and see what used to be, and see the pictures of the old and then the new and the revitalized areas of many of our urban centers.

I just think that we need to engage in an energetic debate about what it should be and how we should think beyond the 1992 box that began HOPE VI, how we might get it to more communities around the country rather than have it be so focused on maybe some of the same communities, how we deal with people who might have moved out of a project—we only know 14 of them have been completed out of 165. So, therefore, there is a whole lot of people who got moved to somewhere else, told that they will be able to move back, who still haven't moved back to anything.

There are things about it that we can think through and improve. I am willing for us to look at that Urban Institute report. I am sure it will have a lot of credibility as to how we might do this even better.

I do not mean to monopolize your time, but thank you.

Senator CARPER. Well, thank you. I used to hear a phrase a lot—perhaps you did too—if it ain't broke, don't fix it. I do not like that little saying. We changed that in Delaware to, if it is not perfect, make it better. And that might apply here as well.

Let me just refocus, if I can, on Section 8's and block-granting the voucher program.

I was involved, as a Governor through the National Governors Association working with the Clinton Administration and Congress, in taking the AFDC and block-granting it to create a different kind of program that we called TANF, as you know—Temporary Assistance for Needy Families.

The States were initially reluctant to agree to take an entitlement program and to block grant it and say, that is it, in terms of the funds that you are going to have for cash assistance for welfare in the future. And we ultimately did so because we believed that there was going to be a drop-off in the number of families that

would be participating, that would need cash assistance over the coming years.

It turns out that that is exactly what has happened. Nationwide, the rolls for cash assistance are down by about half, even in the midst of a recession that we are coming out of.

There is a difference between taking a block-grant approach to AFDC and turning it into TANF. And I think taking this voucher program, Section 8 rental assistance program, and block-granting that, because I am not sure that the kind of caseload reduction that we have seen in TANF is going to be replicated in Section 8.

I would just have us be mindful of that fact as we go forward in this area. I do not think the block-grant approach anticipates any changes in inflation, any decreases in caseload.

Any comments with respect to that analogy?

Secretary MARTINEZ. Yes, Senator. I would say that many of your former colleagues and governors around the country are welcoming that opportunity because of the positive experience with TANF. We are calling this HANF because we believe it is a parallel program.

I am not sure I can speak to caseload reduction, but I can certainly speak to a couple of issues that I think would be much better managed.

No one can suggest that for over a billion dollars a year to be recaptured from housing money, that then gets allocated to perhaps other needs, it is a good thing for the needy families of America who need better housing.

I believe that by providing local and State governments with the opportunity and flexibility to manage the program, and certainly we will avoid that recapture issue.

I also find that a program that requires the rent levels to be adjusted out of Washington with a lot of paperwork and usually a 6 month delay, say a community all of a sudden bumps up against a rent level where people cannot with a voucher go get a place to rent because there is nothing on the marketplace.

They cannot just make that adjustment at the State level. They have to come all the way to Washington, to HUD, a very inefficient place, by the way, which we hope every day to make more efficient, but yet not there. And it might take 5 or 6 months for the local agency to then have that adjusted rent level.

So, I think, just on those two examples, this is a retail program and it could be better managed at the State level with the same commitment I heard—and I remember someone this morning made the comment that over time, money would be lost from housing.

I think that it can be very clearly written into the legislation and the enacting legislation that I would ensure that this money remain in housing. And I believe that that could happen.

I believe that Section 8, while it is a good program, it is broke. I mean, that it is not working exactly great when we see the underutilization of vouchers. It really breaks my heart to think about that money being recaptured and then not necessarily going—where you know that there are so many places where people are saying, we desperately need more vouchers, where other places, they cannot use them.

Senator CARPER. Mr. Secretary, as we debate whether to go forward on this path, keep in mind the concerns that I raised, please.

And the other thing that I would ask is if we keep in mind whether or not a block-grant structure may affect the willingness on the part of landlords to participate in the program. There are some concerns that they will not if we have a fragmented system with 50 different programs out there. Would you take just a minute on homeownership and tell me what is in the budget that really speaks to that?

Secretary MARTINEZ. Yes, Senator. Thank you very much for the opportunity.

We believe that the President very passionately believes in homeownership as a key to reaching the American Dream for many American families.

We have a commitment of \$200 million to the American Dream Downpayment Initiative which would provide, through the HOME program, downpayment assistance to families for the first-time homebuyers, obviously in the right income brackets, to buy their first home.

In addition, a very important component of homeownership from what the Government can do is the \$45 million in homeownership training and education.

We believe that families need the counseling, particularly families that are immigrants to this country, speak English as a second language, that they can use—and all poor families, really—the understanding of how to go about the home-buying process, how to order their finances, how to fix their credit problems.

We also continue to fund SHOP, which provides homeownership opportunities. The tax credit program that the President has in this year's budget for single-family construction would also enhance the availability of affordable single-family housing in distressed areas of our communities.

The second part of the program which is equally important is the private-sector partnership. And in that arena, we have a very strong partnership with Fannie Mae, with Freddie Mac, and with the Nation's mortgage banking community.

In addition to that, the homebuilders, the realtors, all of the people really in the home-buying and home-financing industry coming together to offer partnership where now we have a large number of partners working with us diligently to try to create 5.5 million more homeowners through the next decade.

We have benchmarks in place. We will have a yearly report which will come out in June to tell us how we have done in the past year and ensure that this goal is not just a goal, but, in fact, can be a reality.

Senator ALLARD. Senator Carper, your time is expired.

Senator CARPER. Thank you, sir.

Senator ALLARD. Now, I will turn it over to the Chairman.

Chairman SHELBY. Thank you, Senator Allard, for presiding. As I told the Secretary earlier, we have been in an appropriation shake-up of the subcommittees. The shake-up is okay.

[Laughter.]

I am glad to be here.

Mr. Secretary, in March 2000, the HUD Inspector General—I know you were not there then—issued a report detailing the serious financial and managerial concerns that they have with Puerto

Rico's Public Housing Administration. More than \$21.8 million in wasteful or fraudulent expenses were identified by the Inspector General of HUD. In addition, the Inspector General found that the Public Housing Administration was not complying with the Federal procurement requirements. Schemes involving kickbacks and fraudulent activities have led to the indictment of several public housing employees there. That is a lot of money.

Where is HUD today in making a determination that Puerto Rico's Public Housing Administration should go into administrative receivership and have HUD make decisions on behalf of the PHA?

If this is not under consideration, what other options exist? And what, if any, progress has been made since the Inspector General's report—not our report, but your Inspector General's report in 2002 regarding this? Has any effort been made—I know I am asking you several questions here—to recover the \$21.8 million in ineligible expenses identified by the Inspector General? Do you want to bring somebody else up?

Secretary MARTINEZ. Yes, sir. Michael Liu, Assistant Secretary for Public and Indian Housing. Let me make a stab initially, and then I might turn it over to him to complete the answer.

Chairman SHELBY. Yes, sir.

Secretary MARTINEZ. I just returned from Puerto Rico. I was there last Thursday and Friday.

At the very beginning of my time at HUD, I met with Governor Calderon of Puerto Rico, who was also a newly elected Governor. We identified these as very serious problems that needed to be addressed. The first thing we addressed was the HOPE VI program that they had there. They had an ongoing HOPE VI which was in such a state of mismanagement and disarray, that we felt it necessary for HUD to take over the administration of that program. We did so and we have now initiated that HOPE VI, which was a construction project to be completed.

Chairman SHELBY. Has it changed a lot since you took it over?

Secretary MARTINEZ. It has changed dramatically. And frankly, we are now considering turning it back over to the Puerto Rico Housing Authority.

We have done a couple of other administrative things. I am going to let Mr. Liu give you some details.

Chairman SHELBY. We would like that.

Secretary MARTINEZ. But I also want to tell you something very innovative and positive that we did in Puerto Rico, which is that we have just now for the first time on a pilot basis—Puerto Rico is different from every other housing authority in America. It is a commonwealth-wide housing authority administration. We now have partnered with four municipalities in Puerto Rico to give them management over their housing authorities at the very local level, which we think will break up a lot of the issues and problems that have chronically plagued the Puerto Rico Housing Authority. We are going to do this with four cities on a pilot level. We may expand it later.

The second thing, or the last thing I will say before I turn it over to Mr. Liu, is that we, Senator, have the confidence that new management of the Puerto Rico Housing Authority and Mr. LaBoy, who has come into being to direct that agency, is doing a very, very

good job. We have a great deal of confidence that the problems of the past are not being repeated.

However, we do concern ourselves with that greatly. And I would not have hesitated to put him under Federal receivership as I did with the New Orleans Housing Authority when that was in a situation that we felt there was no other choice.

So, we did it in the case of New Orleans. We continue to work with the government of Puerto Rico in a way that we felt would get us to a better day. We think we are coming to that moment now. And I will let Mr. Liu get into some of the details on the issues that you raised.

Chairman SHELBY. Thank you.

Mr. LIU. Mr. Chairman, real quickly.

Chairman SHELBY. Identify yourself for the Reporter.

Mr. LIU. Yes, sir. Michael Liu, Assistant Secretary for Public and Indian Housing.

Chairman SHELBY. Okay.

Mr. LIU. In regard to the monies that you have mentioned, a good portion of that was tied to the HOPE VI, one of the HOPE VI contracts that we had with a contractor there that the public housing authority did. With the cooperation of this management of the public housing authority, we pursued that individual, that firm, to the last resort through the courts.

We lost.

In conjunction with our Inspector General, the Inspector General has agreed that we have exhausted all possible courses of action there. They have recommended and agreed that we dispense with \$12 million of that obligation. However, in return for \$7 million from the housing authority on the sale of a piece of property that is in transaction right now.

In the other areas of procurement, we have worked very hard in providing technical assistance and in monitoring their procurement practices. As the Secretary mentioned, we now feel very firm that they are on the right track.

Chairman SHELBY. Have you been working with the Inspector General regarding the initial report 2 years ago, 3 years ago?

Mr. LIU. Yes, sir, we have been.

Chairman SHELBY. He is on top of things?

Mr. LIU. Yes, sir.

Chairman SHELBY. Okay.

Senator Reed.

Senator REED. Thank you very much, Mr. Chairman.

Mr. Secretary, let me associate myself with the remarks of Senator Carper about the Section 8 voucher program because I think that the issue here is the ever rising cost of housing.

As I understand the current program, the reimbursement is based on actual housing costs. And the danger in the block grant is that the monies may not keep up with these rising costs of housing, leading the States to either cut back on the number of people served or to somehow decrease the subsidy.

And as I look at the budget, the fiscal year appropriation for the Housing Certificate Fund was \$17.09 billion and the President's request is \$17.058 billion. There is already a slight reduction from what was appropriated last year.

If my numbers are right, I wonder how we are going to keep up—I guess the basic question is, how are you going to ensure that this block grant doesn't result in less people being served than are currently being served?

Secretary MARTINEZ. Senator, the block-grant proposal would fund the precise number of units that are being funded today. It would not fund a lesser number. It would just allow the States to do the management of it in a more direct way. But it would not be the intent to result in an immediate cut in the funding to Section 8 vouchers.

We have, Mr. Liu tells me, \$700 million additional in the Section 8 voucher program. So, I just do not think that we anticipate a reduction in the funding levels.

Senator REED. I guess if the issue is management, of being efficient in terms of distributing the vouchers, identifying recipients, that is one thing. But how do the States manage to increase housing costs without increased monies?

Secretary MARTINEZ. I suppose from time to time, the housing costs would have to be accounted for in increases on the levels of funding that they would receive from year-to-year. I do not think they would be frozen in time. It would just be a management tool.

Senator REED. Well, I think, again, Senator Carper eloquently described the concerns that he has and I share.

Secretary MARTINEZ. Senator, if I may.

Senator REED. Yes, Mr. Secretary.

Secretary MARTINEZ. I just think it would be an appropriate debate for us to have. I think it is an innovative way. I think it is revolutionary. I think it will dramatically have many things that would be positive. But we do keep in mind those things that you mentioned and I hope we can continue to debate this topic.

Senator REED. One of the concerns I have is that if you look back historically, GAO did a report when Congress block-granted social programs in 1981 and found that almost every program faced huge cuts in the following years in terms of their appropriations because the block grant was easier to cut than individualized, specified, targeted programs.

Secretary MARTINEZ. Right.

Senator REED. So let me put that in context. And I agree with you that this is something that we have to watch very carefully.

Let me turn for a moment again to the issue of public housing operating funds. I might be confused and I would appreciate your direction here.

The fiscal year 2003 appropriation bill was \$3.57 billion. But \$250 million of that I assume was used to the shortfall.

Secretary MARTINEZ. Correct.

Senator REED. So, effectively, we are going into 2003 with about \$3.327 billion to cover costs which we know are at least that much. And the request this year is just for \$3.574 billion.

It just seems to me that there is \$250 million here that we pulled from the 2003 budget to last year's budget. And yet, we are not increasing the request by anything on the order of \$250 million extra.

Secretary MARTINEZ. We had a 1-year shortfall that was funded by the—was it special defense appropriations?

[Pause.]

By the operating subsidy on this year, is being funded. We then, going forward, will be able to function with that budget level because what we have done is fix the problem that was creating that shortfall on a year-to-year basis.

I do not think we have a \$250 million shortfall going forward like we have had in the past.

Senator REED. Just one final question, Mr. Secretary. You have talked about moving the Brownfields program from your Department to EPA. My assumption is that EPA's responsibility on Brownfields are remediation of the site, State compliance, not housing directly. When those funds are going over to EPA, does EPA now have the responsibility and the obligation to directly use these resources for residential housing?

Secretary MARTINEZ. Sir, our program did not do residential housing, either. It was economic development in Brownfields areas. So it was really for economic development opportunities. The EPA will do the same thing.

Senator REED. So, they will do the same thing.

Secretary MARTINEZ. Economic development.

Senator REED. Thank you, Mr. Secretary.

Chairman SHELBY. Senator Allard.

Senator ALLARD. Mr. Chairman, I cannot let this go by without asking you about the Government Performance and Results Act.

Secretary MARTINEZ. GPRA.

Senator ALLARD. I ask every member of HUD that comes here to testify about this question because I am interested in making sure that we move forward with that. Would you please discuss how the Administration is utilizing this approach through the President's Management Agenda? How does the integration promote accountability? How will this outcome focus to help benefit those people in HUD who are relying on the programs, as well as the taxpayer, if you will?

Secretary MARTINEZ. Senator, if I may allow Angela Antonelli, our Comptroller, to answer that question. I will defer to her. My notes do not have GPRA today.

Senator ALLARD. Okay. Very good.

[Laughter.]

Ms. ANTONELLI. Senator Allard, performance measurement, as you know, is a very high priority within the President's Management Agenda and budget and performance integration.

Consistent with that, we have made every effort to align our programs and our dollars with the Department's strategic goals and objectives. And attached to all of that are performance measures on how we hold our programs accountable.

We produce, as part of the GPRA, the Annual Performance Plan. We will be producing our 2004 APP and delivering that to Congress very shortly.

As you know, the APP has performance measures attached to all of our programs. Through the Performance and Accountability Report, we report annually to Congress and just delivered the 2002 Performance and Accountability Report to Congress. That reports on our performance for 2002.

So it is something that we take very seriously. We are working very hard within the Department to continue to improve the quality of our measures and we will continue to do that in the 2004 APP. And we certainly welcome any comments from this Committee with regards to the quality of that and the extent to which we continue to improve that.

Senator ALLARD. Thank you.

The General Accounting Office has repeatedly cited human capital as a weakness at HUD. The problem is exacerbated by HUD's aging workforce. Apparently, it is the oldest in the Government.

I am aware that you recently completed a Resource Estimation and Allocation Process called REAP that would help match needs with skills. What were the results of the REAP and how is HUD using that to address its human capital deficiencies?

Secretary MARTINEZ. Senator, I am happy to report that we have been able to "staff up," if you will. One of our goals has been to continue to revitalize and reenergize our workforce. We have established an internship program where we now are bringing in talented young people with a new and positive skill set.

We find that the aging workforce, while it is a double-edged sword, on the one hand, you may be losing very experienced employees. But then again, we may be gaining new ones with the new skill sets the 21st Century sometimes requires. We are working hard at making a positive out of that.

We are employing the REAP as a guide. We have reached staffing levels that are really adequate for the moment. We are looking forward to stabilizing that. We staffed up a little quickly. We now need to slow down in our hiring. So it is always a moving target, if you will. But I am pleased that we have been able to move our staffing levels from 9,100 to the 9,300, which has been authorized and utilizing REAP so that we do it in keeping with our needs, but also the critical hire list. We continue to work on improving our controls of how we do that process.

Senator ALLARD. Now, I know that you are working to try and increase homeownership among minorities. You use the 5.5 million by the end of the decade. I know that you were very much working together on the American Dream Downpayment Initiative. Do you have other programs going out there to help meet that goal of 5.5 million by the end of the decade?

Secretary MARTINEZ. Well, certainly, we do the ongoing programs that HUD has. But on the specific, the Downpayment Initiative Program that you have kindly agreed to sponsor. It is also the educational component and it is also the tax credit proposal which provides an additional amount of affordable single-family homes in distressed areas in our communities all working together. But I also think we rely greatly on our partners in the private sector because, really, that is going to provide a tremendous infusion of not only dollars, but manpower and know-how, in providing families that are desirous of becoming homeowners the opportunity to do so.

Senator ALLARD. Thank you, Mr. Chairman. I see that my time is about ready to expire.

Chairman SHELBY. Senator Corzine.

Senator CORZINE. Thank you, Mr. Chairman.

Mr. Secretary, I want to go back to this Ernst & Young study with regard to the dividend tax cut proposal, particularly since you have mentioned tax credits now twice within the context of homeownership.

The tax credit efforts also apply in some of the Fannie Mae and Freddie Mac programs. Before the proposal on the dividend exclusion, was there any discussion with HUD on what the implications of that would be from either Treasury or OMB?

Secretary MARTINEZ. Senator, let me first of all let you know that I have been informed that the Mortgage Bankers Association will be releasing a study early next week saying that they find no major effect from the low-income tax credit proposal on housing.

My early discussions with even the homebuilders, while initially there was some concern, later, as they further studied it, I believe their concerns have been dissuaded.

I believe that the Ernst & Young report raises some very valid and serious concerns. But I do not believe it is a unanimous voice. And I do know that the Department of the Treasury has a very different point of view on that specific issue.

Senator CORZINE. I guess my question was, was that a consideration? Did we think about the housing implications and whether or not that would work to the advantage or the disadvantage? Did we think about that when we were putting together an overall budget proposal?

Secretary MARTINEZ. Senator Corzine, as I told you earlier, the tax proposals of the Administration are really a product of the Department of the Treasury and not the Department of HUD. And in fact, we piggyback with them on issues like the single-family housing tax credit. But it is not a program that either HUD designs or develops.

Senator CORZINE. Right. I hope that you and Treasury Secretary Snow can get on the same page on these as it impacts these housing programs.

I won't beat up on this. I want to put in a word for the Enterprise Zone activities which are zeroed-out.

I, like you, come from the private sector. I think leverage is a terrific opportunity when the Federal Government will put down a dollar and gets 10 dollars. As I suggested the last time, I would love to take you to Cumberland County and see where \$123 million has been leveraged by about \$10 million of public investment.

Several hundred new housing units renovated, rehabilitated, reconstructed. New jobs. And without that kind of funding for a program, it is hard to understand how economic development can go forward. I suspect that this individual situation may be reflective of other things around the country and we are interested in economic growth.

This is a great example of public/private partnership, as we heard earlier on HOPE VI and other areas. I would think that that would be consistent with the philosophy of the Administration.

I have a question, though, that ties with something that you said in your opening statement, where you made a very real and, I believe, sincere, commitment to promoting homeownership among minorities. But in some ways, I do not understand how that relates to something that I think HUD has recently proposed in a rule that

would repeal requirements for recipients of Community Development Block Grants to demonstrate a commitment to diversity.

Under the Johnson Executive Order 11246, companies with 50 or more employees in Federal contracts of more than \$50,000 are required to file with the Federal Government written affirmative action plans.

Those plans did not mandate hiring quotas, but did require companies seeking Federal contracts to demonstrate a plan and a good-faith effort toward hiring women and minorities. I understand HUD is proposing to exempt organizations that receive Community Development Block Grants, more than \$4.4 billion allocated in fiscal 2003 from their obligations under the Executive Order.

First of all, I would love to hear your comments about it. But is HUD's position that there is no longer a need for this commitment to diversity as exhibited in this Executive Order?

Secretary MARTINEZ. Senator, I am sorry to say I am unaware of the issue that you raise. I will look into it and be glad to consider responding to you in writing. But I am not familiar with that issue whatsoever.

Senator CORZINE. I think it is one of those things that was included on a January 6, 2003 proposal from HUD, if I am not mistaken, that was associated with some of the faith-based initiatives that have come.

Secretary MARTINEZ. The faith-based initiative attempts to break down barriers and bring more people into opportunities for partnership with the Federal Government.

There is nothing that I am aware of in that particular regulatory change that would in any way either attempt or by design or accidentally, limit participation by people from a broad spectrum of race and creed and other backgrounds.

Senator CORZINE. I certainly would want clarity with regard to this as it relates to Community Development Block Grants because I think it is a major shift in policy—

Secretary MARTINEZ. Senator Corzine, I am looking back here to Assistant Secretary Roy Bernardi the Assistant Secretary who manages the Community Development Block Grant Program. He is unaware of this issue. It is not something that we are aware of.

Senator CORZINE. We need to sort this out because our legal people are suggesting to me that this January 6 order with regard to Community Development Block Grants actually changed the basic framework of this.

Secretary MARTINEZ. Would that be an order from HUD or—

Senator CORZINE. According to the research that my people have been able to develop.

Secretary MARTINEZ. Okay. What we should do is perhaps have your people communicate with us and we can get together and try to ascertain what that is about.

Senator CORZINE. Thank you.

Chairman SHELBY. Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman.

Mr. Secretary, a number of times here you have used a phrase—I am trying to recall exactly the phrase. It was, I believe, "Given the current situation we confront on the budget." Was that the phrase you used as you were responding to the question about why there

are some cutbacks and why you are not funding the HOPE VI and so forth? What was that phrase that you used?

Secretary MARTINEZ. I guess, I am not sure exactly the phrase, but what I am alluding to is that we are in a time of unprecedented needs from a standpoint of national defense. We are at a time when the economy has not been as flourishing as we would all like it to be. And so, it is a difficult budget year.

Senator SARBANES. Is that a euphemism on your part for what you heard from OMB? Is that phrase designed to mask, as it were, an OMB directive?

Secretary MARTINEZ. No, sir. I think it is reflecting the current reality in which our country is living.

Senator SARBANES. So when you went to OMB to begin with, did you already factor that into your request, or was that consideration, this kind of broader view of the macroeconomic situation, was that in effect fed back to you by OMB?

Secretary MARTINEZ. I believe that the development of the President's Budget, which HUD is a part of, is a product of the interaction of the Department, OMB, and the overall priorities that the President sets out.

And that my role in the Administration is to, number one, do a good job with HUD in terms of preparing a thoughtful budget, and then allow it to be part of the process which at the time you were reminiscing about earlier when I was at my confirmation hearing, I had no idea just exactly what those three letters meant to my world, but as you well know, are significant.

OMB does play a very large role in the preparation of the President's Budget.

Senator SARBANES. Do you think Secretary Rumsfeld, when he puts forward his budget, factors in these broader considerations, or do you think he puts forward a budget that reflects what he judges to be the needs within his area of responsibility?

Secretary MARTINEZ. I believe your question to be more rhetorical in nature than seeking an answer from me. But I think you should know that I am not going to comment on how Secretary Rumsfeld puts together his budget request because I think that that is something that should be answered by him.

Senator SARBANES. Let me ask you a couple of questions about public housing. First, what is the view of the Department with respect to expanding the current stock of public housing? Not vouchers. I am not talking about vouchers now. Second, what is the view of the Department with respect to maintaining the current stock of public housing?

Secretary MARTINEZ. If you mean by the expanding of public housing, it is new construction for public housing.

Senator SARBANES. Right.

Secretary MARTINEZ. I do not believe that our approach to that is any different than it has been for many years, which is that, essentially, there is not a public housing production program at HUD today, nor has there been one to my knowledge for quite a number of years.

In terms of the existing stock of public housing, I think we have a continuing commitment commensurate with budget levels that

have been around again for some period of time to continue to modernize and upgrade public housing.

I know from my experience many years ago in the local housing authority, that even then, in the early 1980's, we had great concern about what was called modernization and the need to continue to do new roofs or to somehow or another continue to maintain the stock of public housing.

I think that our view of that is that we continue to make that commitment and continue to do what we can to improve public housing within the constraints of—

Senator SARBANES. Do you think that your commitment of resources for the modernization of the existing stock of public housing is at a level sufficient to sustain it? Or do you think you are falling behind the need so that you are going to lose some of the stock because it will simply deteriorate into a condition in which it is either not usable or too expensive to bring up to standards?

Secretary MARTINEZ. I believe that what we are doing to maintain public housing is adequate to maintain it.

We also are opening avenues of new opportunities for public housing agencies to do a lot for themselves in order to provide and acquire private financing which will allow them to do the necessary maintenance and upkeep, and upgrade.

I think that these innovative ideas are going to provide the independence for the housing authorities to do on a project-by-project basis or even on a single apartment complex basis, the kinds of improvements that they have not been able to do in the past.

So, I believe we are freeing up the imagination and the creativity of our local housing authorities in partnership with local lending institutions and all to improve that.

Senator SARBANES. Now does that approach involve an assurance to the public housing authority of vouchers from HUD?

If the public housing authority is going to go out and borrow a lot of money to put into the maintenance or modernization of its public housing, which I take it is what you are suggesting, to what will the lender look for repayment of this debt that the public housing authority will be assuming?

Secretary MARTINEZ. My intuition tells me that what they look to is to the stream of income that would be coming by the rents that are collected. But this is not just an idea. This is actually occurring and happening. Today, Chicago has committed \$300 million in new, innovative financing. Philadelphia, \$120 million. The District of Columbia, \$33 million.

These are all happening today in a way that I think are going to be very successful and then encourage even more of our public housing entities to do the same thing.

Senator SARBANES. And they are going to, in effect, carry the debt simply by the rents?

Secretary MARTINEZ. The way in which financing usually takes place is that the lender will look for a stream of income coming to the borrower that will then allow that borrower the reasonable prospects of repaying the loan, that I think is what occurs here.

Senator SARBANES. Where is that stream of income coming from? Is it just the rents? That was my question.

Secretary MARTINEZ. A certain percentage of the capital fund, rent, and other income.

Senator SARBANES. What is the other income?

Secretary MARTINEZ. It would be management fees. It would be other activities that public housing entities sometimes enter into. In different communities, they have different opportunities to do things which derive income for them. It is a private financing mechanism.

Senator SARBANES. Well, I would like to see this financing arrangement. It doesn't assume any stream of income coming to the public housing authority from HUD?

Secretary MARTINEZ. I think that, inevitably, the public housing authority receives rental—I mean they receive monies, operating subsidies, from HUD every year. The rent that is paid by the tenants, and the subsidies that are given provide a stream of income that appears to be sufficient for these financial institutions to make a commitment.

Senator SARBANES. All right. So, then, it is critical to making this work, that a stream of income from HUD is assured or guaranteed, is it not?

Secretary MARTINEZ. The current system is working in these three cities, and I am sure in others. And whatever guarantees the financial institutions obtain was sufficient to allow them to make the loans.

Senator SARBANES. We will have to take a careful look at that. I am concerned that you are setting up a system to replace capital grants for modernization by shifting the housing authorities into a borrowing arrangement. And it is not clear to me once they go into the borrowing arrangement, where the funds will come from to handle the repayment. It seems to me—will HUD eventually drop out of that picture?

Secretary MARTINEZ. I do not think so, sir.

Senator SARBANES. Is HUD putting an income stream into those situations that you just described?

Secretary MARTINEZ. I think HUD's participation with public housing authorities and the way that it has been done in the past is not anticipated to be changed dramatically by these arrangements. It is just allowing them a new vehicle, a new way that they can improve the stock of housing by having yet another avenue available to them.

Senator SARBANES. Well, you have cut the Capital Fund each year now since you have been at HUD. And of course, the budget submissions for cutting the Capital Fund have been significantly greater than what the Congress has in the end done. The Congress has swallowed some of the cuts, but we have really restored a great deal of them.

In three budget submissions, you have proposed \$1.2 billion in cuts to the Public Housing Capital Fund. I do not see how we are going to sustain this housing—I think it would be a policy lacking in common sense to allow existing public housing stock that, through reasonable measures, could be sustained as available affordable housing, simply to fall into disrepair, and I am quite concerned about that.

It is a policy argument whether we should build more public housing, and I understand that. As you pointed out, we have not done that in recent years because we have gone down the Section 8 path. But I do want to know what the basic attitude is toward sustaining the public housing. There are some people who argue that they want to do it all in and go completely to vouchers.

I take it that is not your position.

Secretary MARTINEZ. That is not my position. It is not currently anything under discussion by this Administration. Some would argue that that would be a healthy way to go. But that is not something that I am particularly advocating or it is nothing that is indicated by any of the things that you suggest.

Senator SARBANES. Of course, if you went that way, you would give up a lot of currently available housing stock, a lot of which is helping us to meet the problem of affordable housing.

Secretary MARTINEZ. Yes. I am not suggesting that that is something that we should engage in.

Senator SARBANES. Well, my time is expired.

Chairman SHELBY. Thank you, Senator Sarbanes.

I noticed in the budget, Mr. Secretary, that you are calling for \$17 million for the manufactured housing program. That is a 30 percent increase in funding over recent years.

Since HUD's budget for this program is paid, I think it is paid for entirely by label fees and the industry is not as healthy as it was several years ago, I am curious as to how you justify such a significant increase, whereas, I understand that you are estimating that industry will sell 281,000 homes in 2004.

Secretary MARTINEZ. The numbers arise, Mr. Chairman, by our determination of the fees by taking the appropriate amount and dividing it by the number of units that we expect to be produced.

Chairman SHELBY. I understand that, the label. Your 281,000 homes projected for 2004 seems rather high considering that in the calendar year 2002 we just finished, the most recent data available there, only 168,000 homes were sold. This would be over a 100,000 increase. Of course, the industry would like it. But they feel like that is an inflated figure.

Do you want to respond?

Secretary MARTINEZ. Housing Commissioner Weicher.

Chairman SHELBY. Okay.

Mr. WEICHER. Thank you, Mr. Chairman. I am John Weicher. I am the Assistant Secretary for Housing and the Federal Housing Commissioner.

Chairman SHELBY. Yes, sir.

Mr. WEICHER. The 281,000 unit figure comes from the forecast of DRI. It is the only private forecast that we know. That is their forecast for the volume of manufactured homes in 2004. We get the \$17 million figure by multiplying that by the fee per unit, which we established by regulation last year. We are not proposing to change the fee in reaching that number.

Chairman SHELBY. Thank you.

Senator Sarbanes, do you have any other questions?

Senator SARBANES. Mr. Chairman, no. I do think, and I will discuss it with you, we should give some thought to doing budget sessions on specific programs because I think it is clear today that you

do not really have a chance to get as far in depth with respect to the budget as might be desirable.

I think the prospect of just doing the entire HUD budget at one hearing doesn't give us that chance. So maybe we should give some thought to whether we should just focus on particular aspects of it and then explore that with the Secretary and whichever Assistant Secretary is responsible.

Chairman SHELBY. Senator Allard is not here, but his staffer is here. He is the Chairman of the Subcommittee over that, and we might look at it.

Senator SARBANES. Good. Thank you very much.

Chairman SHELBY. Mr. Secretary, we appreciate your appearance here today and your candor.

Secretary MARTINEZ. Thank you.

Chairman SHELBY. We wish you well. And let's build housing for every American, if we can.

Secretary MARTINEZ. Thank you, sir. It is good to be with you.

Chairman SHELBY. Thank you.

Secretary MARTINEZ. Thank you very much.

Chairman SHELBY. The Committee is adjourned.

[Whereupon, at 12:15 p.m., the Committee was adjourned.]

[Prepared statements and response to written questions follow:]

PREPARED STATEMENT OF SENATOR JON S. CORZINE

Thank you very much, Mr. Chairman. I want to reiterate the concerns outlined by the Ranking Member and my colleagues about the Administration's 2004 Budget for the Department of Housing and Urban Development (HUD) and the enormous harm this budget will have on low- and middle-income families throughout America.

Regrettably, this seems to be the norm for this Administration, rather than the exception. The budget of the "Leave No Child Behind" President has no significant aid for America's public schools. They have offered a trickle down economic plan that by their own admission offers very little in the form of immediate stimulus, but *will* add \$1.5 trillion to our already enormous Federal deficit.

It is a budget that provides no direct Federal aids to States facing their worst fiscal crisis in four decades. Now many will be forced to cut funding for vital programs like Medicare and Head Start. And it fails to adequately fund important homeland security measures like first responders and ensuring the security of chemical plants, many of which can be found in residential communities.

It is not a stretch to assert that this Administration's budget will likely leave this country worse off tomorrow than we are today—there is no doubt that at least fiscally, America is worse off now than before this Administration was in place. But nowhere are this Administration's misplaced priorities more demonstrable than in its HUD budget and its housing programs.

Over the past 2 years, the President has slashed \$2 billion from the public housing program, slashed funds for the Public Housing Operating Fund and eliminated funding for the Public Housing Drug Elimination Program (PHDEP).

The Administration's proposal to block grant the Section 8 program will likely reduce funding for the program and undermines the program's mission to assist the most low-income families afford housing. At a time in which more and more families are struggling to afford housing and voucher utilization is on the rise, underfunding the Section 8 program is a misguided step.

But the HUD budget is not just about slashing public housing programs. It is also about rescinding Federal support for community revitalization projects that are transforming our Nation's urban core, including those in my State, New Jersey.

I am nothing short of outraged at the proposed elimination of the very successful, bipartisan HOPE VI program; funding for Round II Empowerment Zones and cuts for Brownfield redevelopment. Each of these programs has been successful in communities throughout America.

The Hope VI program has been particularly vital in New Jersey, where its helped transform some of the Nation's oldest public housing stock into safe, livable mixed-income communities for families.

The Cumberland County EZ in my home State has created hundreds of jobs, renovated, rehabilitated, and constructed more than one hundred housing units, and funded more than 60 programs that are expected to leverage more than \$123 million in private, public, and tax-exempt bond financing. The Cumberland County EZ is leveraging \$10 in non-Federal funds for every \$1 of Federal financing.

Why does the President want to eliminate such successful programs?

Secretary Martinez, you yourself seem to be developing a serious credibility gap. At your confirmation hearing, and in subsequent questioning, you articulated HUD's support for PHDEP—a year later you eliminated it, without saying a word to Congress. Last year, you said the HOPE VI program was "overall . . . a great program that has done an awful lot of good, and we [Bush HUD] are delighted." Now a year later, like we witnessed with PHDEP, you are completely eliminating funding for that program.

The constant here appears to be that your Agency, Secretary Martinez, continually seems to be used as a funding source to offset the costs of this President's "Leave No Millionaire" behind tax-cutting agenda. It is the reverse Robin Hood scenario, robbing programs that help the poor to pay the cost for programs that make the richest Americans wealthier. Even the President's proposal to exclude taxes on corporate dividends hurts housing efforts, particularly the Low-Income Housing Tax Credit (LIHTC). The tax credit will likely become less attractive to investors should this dividend exclusion be enacted.

A recent report by Ernst & Young, LLP, indicated that *35 percent* fewer units financed by the LIHTC would be produced every year if the dividend tax cut were enacted. Again, the poor gets hurt for an initiative that primarily benefits the wealthiest of Americans.

In closing, Mr. Chairman, I would like to state a few facts about the housing crisis we are facing in America and in my State, New Jersey. There, 34 percent of households are renters, and today the average family would have to work 146 hours at minimum wage to afford the Fair Market Rent for a 2-bedroom apartment. Waiting

lists for Section 8 in New Jersey are as long as 3 years—and even with vouchers, the lack of affordable housing stock makes it difficult for families to find housing. Those numbers are similar in urban communities throughout America.

Secretary Martinez, the housing crisis in this country is very real—but your HUD budget seems to give short shift to the housing crisis, or the families affected by this crisis. And that is a shame, because it is your job to care.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF SENATOR ELIZABETH DOLE

I would like to express my appreciation for your holding this hearing today and join you in welcoming Secretary Martinez to discuss the Administration's Department of Housing and Urban Development budget request.

Let me begin by making it very clear that I believe that Secretary Martinez should be congratulated for the good work he has done at HUD. Secretary Martinez took over an Agency which was in disarray. Staffing cuts had been made by the previous Administration to adhere to arbitrary staffing goals. Unfortunately, some of the Agency's most senior and experienced staff was lost due to downsizing. The HUD Inspector General's Office referred to this as "the brain drain" and noted that serious long-term effects would be felt.

In addition, a series of management reform initiatives in the previous Administration moved and consolidated staff in new areas of the country. This unfortunately created enforcement gaps exploited by criminals who took advantage of HUD and took advantage of ordinary citizens. I am reminded of a North Carolina saying that goes, "you cannot fall off the floor"—and in some sense that could have applied here. Secretary Martinez had nowhere to go but up with such a trouble-ridden Department, but he has clearly exceeded all expectations.

I have reviewed the General Accounting Office's January 2003 review of HUD. The GAO states on the first line of the first page of the report that, "HUD has made progress since January 2001 in addressing identified weaknesses in its high-risk program areas and management challenges, but significant challenges remain." I look forward to this opportunity to discuss with the Secretary those significant challenges which remain, and assess the extent to which these will be addressed in the Fiscal Year 2004 Budget.

A top priority for the proposed budget is achieving the goal of homeownership for low- and moderate-income families. I believe this is a laudable goal on the part of this Administration. While the United States enjoys an all-time high national homeownership rate of 68 percent, there are sectors of the population for whom homeownership remains frustratingly unattainable. In fact, the homeownership rate for African-Americans and Hispanics is in the 40th percentile. This is an unacceptable disparity that we must work to change, for my friends and my neighbors in North Carolina and throughout the country.

The benefits of homeownership for families, communities, and the Nation are profound. When individuals and families own their home, they establish roots in their communities and have a greater stake in the growth, safety, and development of their towns and cities. It is through initiatives to further grow homeownership that we empower individuals and families by helping them build wealth and improve their lives.

While most of the Fiscal Year 2004 HUD Budget is allocated for important programs such as rental assistance and public housing, I have always believed that programs designed to lead their beneficiaries to independence are the best use of taxpayer dollars. Increasing the rate of homeownership for Hispanic and African-American communities is one such goal that is clearly demonstrated in the programs contained in the Fiscal Year 2004 HUD Budget, and I am committed to working with Secretary Martinez and my colleagues on this and other related issues. We need to ensure that HUD becomes known first and foremost for its programs that improve the lives of America's families, and not for bureaucracy and inefficiency.

Thank you.

PREPARED STATEMENT OF MEL MARTINEZ
SECRETARY, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
MARCH 4, 2003

Overview

Chairman Shelby, Ranking Member Sarbanes, and distinguished Members of the Committee, thank you for the invitation to join you this morning. I am honored to outline the Fiscal Year 2004 Budget proposed by President Bush for the U.S. Department of Housing and Urban Development (HUD).

HUD has achieved measurable success since 2001 in carrying out its mission and meeting the many challenges confronting a Cabinet-level Department. Today, HUD annually subsidizes housing costs for approximately 4.5 million low-income households through rental assistance, grants, and loans. It helps revitalize over 4,000 localities through community development programs. The Department provides housing and services to help homeless families and individuals become self-sufficient. HUD also encourages homeownership by providing mortgage insurance for more than 6 million homeowners, many of whom would not otherwise qualify for loans.

Supported by HUD's proposed \$31.3 billion Fiscal Year 2004 Budget, this very important work will continue. Housing remains a critical component of both the President's plan to promote economic growth and his focus on meeting the common challenges faced by Americans and their communities.

The President does not intend to change his 2004 Budget based on the program or Agency levels included in the 2003 Omnibus bill the Congress adopted in mid-February. The President's 2004 Budget was developed within a framework that set a proposed total for discretionary spending in 2004, and each Agency and program request reflected the Administration's relative priority for that operation within that total. While we recognize that Congress may believe there is a need to reorder and adjust some of these priorities, the Administration intends to work with Congress to stay within the 2004 overall amount.

HUD's proposed budget offers new opportunities for families and individuals—and minorities in particular—seeking the American Dream of homeownership.

It offers new opportunities for renters by expanding access to affordable housing free from discrimination.

It provides new opportunities for strengthening communities and generating renewal, growth, and prosperity—with a special focus on ending chronic homelessness.

And our budget creates new opportunities to improve HUD's performance by addressing the internal management issues that have long plagued the Department.

Increasing Homeownership Opportunities

Americans place a high value on homeownership because its benefits for families, communities, and the Nation as a whole are so profound.

Homeownership creates community stakeholders who tend to be active in charities and churches. Homeownership inspires civic responsibility, and owners vote and get involved with local issues. Homeownership offers children a stable living environment that influences their personal development in many positive, measurable ways—at home and in school.

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

Due in part to a robust housing economy and Bush Administration budget initiatives focused on promoting homeownership, more Americans were homeowners in 2002 than at any time in this Nation's history. The national homeownership rate is 68 percent. That statistic, however, masks a deep "homeownership gap" between non-Hispanic whites and minorities: While the homeownership rate for non-Hispanic whites is nearly 75 percent, it is less than 50 percent for African-Americans and Hispanics.

The Administration is focused on giving more Americans the opportunity to own their own homes, especially minority families who have been shut out in the past. In June 2002, President Bush announced an aggressive homeownership agenda to increase the number of minority homeowners by at least 5.5 million by the end of this decade. The Administration's homeownership agenda is dismantling the barriers to homeownership by providing downpayment assistance, increasing the supply of affordable homes, increasing support for homeownership education programs, and simplifying the home-buying process.

Through "America's Homeownership Challenge," the President called on the real estate and the mortgage finance industries to take concrete steps to tear down the

barriers to homeownership that minority families face. In response, HUD created the Blueprint for the American Dream Partnership, an unprecedented public/private initiative that harnesses the resources of the Federal Government with those of the housing industry to accomplish the President's goal.

Additionally, HUD is proposing several new or expanded initiatives in fiscal year 2004 to continue the increase in overall homeownership while targeting assistance to improve minority homeowner rates.

As a first step, HUD proposes to fund the American Dream Downpayment Initiative at \$200 million. This was first introduced in fiscal year 2002, this program targets funding under the HOME program specifically to low-income families wanting to purchase a home. The fiscal year 2003 appropriations provided for \$75 million for this initiative, which will be sufficient to begin the program. The Fiscal Year 2004 Budget provides funding to assist approximately 40,000 low-income families with downpayment and closing costs on their homes.

The HOME Investment Partnerships Program (HOME) plays a key role in addressing the shortage of affordable housing in America. As reflected in this year's program assessment, the HOME program is successful because it is well-managed and its flexibility ensures local decisionmaking. In 2004, a total of \$2.197 billion is being provided to participating jurisdictions (States, units of local government, and consortia) to expand affordable housing, which represents a 10 percent, or \$200 million, increase for HOME from the 2003 enacted level. The funds dedicated to expanding and improving homeownership will be spent rehabilitating owner-occupied buildings and providing assistance to new homebuyers. Based on historical trends, 36 percent of the homeownership-related funds will be used for new construction, 47 percent for rehabilitation, and 14 percent for acquisition.

Recipients of HOME funds have substantial discretion to determine how the funds are spent. HOME funds can be used to expand access to homeownership by subsidizing downpayment and closing costs, as well as the costs of acquisition, rehabilitation, and new construction. To date, HOME grantees have committed funds to provide homebuyer assistance to more than 288,000 low-income households.

To promote the production of affordable single-family homes in areas where such housing is scarce, the Administration is proposing a tax credit of up to 50 percent of the cost of constructing a new home or rehabilitating an existing home. This new tax credit targets low-income individuals and families; eligible homebuyers would have incomes of not more than 80 percent of their area median.

HUD is committed to helping families understand the home-buying process and how to avoid the abuses of predatory lending. Housing counseling has proven to be an extremely important element in both the purchase of a home and in helping homeowners keep their homes in times of financial stress. The Fiscal Year 2004 Budget will expand funds for counseling services from \$40 million in fiscal year 2003 to \$45 million. This will provide 550,000 families with home purchase and homeownership counseling and about 250,000 families with rental counseling.

The Fiscal Year 2004 Budget strengthens HUD's commitment to the Self-Help Homeownership Opportunity Program (SHOP). SHOP provides grants to national and regional nonprofit organizations to subsidize the costs of land acquisition and infrastructure improvements. Homebuyers must contribute significant amounts of sweat equity or volunteer labor to the construction or rehabilitation of the property. The Fiscal Year 2004 Budget request for \$65 million triples the funding received in 2002, reflecting President Bush's commitment to self-help housing organizations such as Habitat for Humanity. These funds will help produce approximately 5,200 new homes nationwide for very low-income families. Funds are provided as a set-aside within the Community Development Block Grant account.

The Federal Housing Administration (FHA) is the Federal Government's single largest program to extend access to homeownership to individuals and families who lack the savings, credit history, or income to qualify for a conventional mortgage. In 2002, FHA insured \$150 billion in mortgages for almost 1.3 million households, most of them first-time homebuyers, which represents a 21 percent increase over the previous year. Thirty-six percent were minority households.

FHA offers a wide variety of insurance products, the largest being single-family mortgage insurance products. FHA insures single-family homes, home rehabilitation loans, condominium loans, energy efficiency loans, and reverse mortgages for elderly individuals. Special discounts are available to teachers and police officers who purchase homes that have been defaulted to HUD and who promise to live in their homes in revitalized areas.

HUD is proposing legislation for a new mortgage product to offer FHA insurance to families that, due to poor credit, would either be served by the private market at a higher cost or not at all. It is anticipated that borrowers will be offered FHA loan insurance under this new initiative that will allow them to maintain their

home or to purchase a new home. The new Mutual Mortgage Insurance Fund (MMI) mortgage loan program is expected to generate an additional \$7.5 billion in endorsements for 62,000 additional homes.

Through its mortgage-backed securities program, Ginnie Mae helps to ensure that mortgage funds are available for low- and moderate-income families served by FHA and other Government programs such as VA and the Rural Housing Service of the U.S. Department of Agriculture.

During fiscal year 2002, Ginnie Mae surpassed a total of \$2 trillion in mortgage-backed securities issued since 1970. Reaching this milestone means that more than 28.4 million families have had access to affordable housing or lower mortgage costs since Ginnie Mae's inception. HUD is proud of Ginnie Mae's accomplishments and its important role in helping to support affordable homeownership for low- and moderate-income families in America. HUD's role in the secondary mortgage market provides an important public benefit to Americans seeking to fulfill their dream of homeownership.

The Fiscal Year 2004 Budget supports five HUD programs that help to promote homeownership in Native American and Hawaiian communities.

The Native American Housing Block Grants (NAHBG) Program provides funds to tribes and to tribally designated housing entities for a wide variety of affordable-housing activities. Grants are awarded on a formula basis that was established through negotiated rulemaking with the tribes. The NAHBG program allows funds to be used to develop new housing units to meet critical shortages in housing. Other uses include housing assistance to modernize and maintain existing units; housing services, including direct tenant rental subsidy; crime prevention; administration of the units; and certain model activities.

The Title VI Federal Guarantees for Tribal Housing Program provides guaranteed loans to recipients of the Native American Housing Block Grant who need additional funds to engage in affordable-housing activities but who cannot borrow from private sources without the guarantee of payment by the Federal Government. Because the grantees have not applied for all funds appropriated in prior years, the amount of subsidy required in fiscal year 2004 is reduced from \$2 million to \$1 million, and the loan amount supported is reduced from \$16.6 million to \$8 million. Prior-year funds remain available until used.

The Indian Housing Loan Guarantee (Section 184) Program helps Native Americans to access private mortgage financing for the purchase, construction, or rehabilitation of single-family homes. The program guarantees payments to lenders in the event of default. In fiscal year 2004, \$1 million is requested in credit subsidy for 100 percent Federal guarantees of approximately \$27 million in private loans.

The Hawaiian Homelands Homeownership Act of 2000 established the Native Hawaiian Home Loan Guarantee Fund, which is modeled after Section 184. The Fiscal Year 2004 Budget will provide \$1 million in credit subsidy to secure approximately \$35 million in private loans.

Modeled after the NAHBG, the Native Hawaiian Housing Block Grant (NHHBG) was authorized by the Hawaiian Homelands Homeownership Act of 2000. The Fiscal Year 2004 Budget will provide \$10 million. Grant funds will be awarded to the Department of Hawaiian Home Lands and may be used to support acquisition, new construction, reconstruction, and rehabilitation. Activities will include real property acquisition, demolition, financing, and development of utilities and utility services, as well as administration and planning.

Promoting Decent Affordable Housing

Ideally, homeownership would be an option for everyone, but even with its new and expanded homeownership initiatives, the Administration recognizes that many families will have incomes insufficient to support a mortgage in the areas where they live. Therefore, along with boosting homeownership, HUD's proposed Fiscal Year 2004 Budget promotes the production and accessibility of affordable housing for families and individuals who rent. This is achieved, in part, by providing States and localities new flexibility to respond to local needs.

HUD has three major rental assistance programs that collectively provide rental subsidies to approximately 4.5 million households nationwide. The major vehicle for providing rental subsidies is the Section 8 program, which is authorized in Section 8 of the U.S. Housing Act of 1937. Under this program, HUD provides subsidies to individuals (tenant-based) who seek rental housing from qualified and approved owners, and also provides subsidies directly to private property owners who set aside some or all of their units for low-income families (project-based). Finally, HUD subsidizes the operation, maintenance, and modernization of an additional 1.2 million public housing units.

HUD is proposing a new initiative—Housing Assistance for Needy Families (HANF)—under which the funding for vouchers, which has been allocated to approximately 2,600 public housing authorities (PHA's), would be allocated to the States. States, in turn, could choose to contract with PHA's or other entities to administer the program. The funding for both incremental and renewal vouchers will be contained in the HANF account.

There are a number of advantages to providing the voucher funds to the States. The allocation of funds to States rather than PHA's should allow for more flexibility in efforts to address problems in the underutilization of vouchers that have occurred in certain local markets. The allocation of funds to the States will be coupled with additional flexibility in program laws and rules, to allow States to better address local needs and to commit vouchers for program uses that otherwise would go unused. In the former Housing Certificate Fund, more than \$2.41 billion has been recaptured over the last 2 years from the Housing Choice Voucher Program. These large recaptures have resulted in a denial of appropriated housing assistance for thousands of families, which will be avoided under HANF. The administration of the HANF program should run more smoothly, with HUD managing fewer than 60 grantees compared to approximately 2,600 today.

Allocation of the funds to the States should allow for more coordinated efforts with the Temporary Assistance for Needy Families (TANF) Program, and the One-Stop Career Center system under the Workforce Investment Act, successfully administered by the States, to support the efforts of those now receiving public assistance who are climbing the ladder of self-sufficiency.

HUD proposes that fiscal year 2004 be a transition year in which PHA's would continue to receive voucher funds directly while States ramp up in preparation for administering the HANF program. Up to \$100 million would be made available to assist States with this effort. In addition, States could apply for incremental vouchers if they are ready to do so, and could request waivers that would assist in the implementation of their programs.

The HANF account would contain \$13.6 billion in funding for voucher renewals and incremental vouchers. This would include funding for up to \$36 million in incremental vouchers for persons with disabilities, additional incremental vouchers to the extent that funding is available, \$252 million for tenant protection vouchers to prevent displacement of tenants affected by public housing demolition or disposition of project-based Section 8 contract terminations or expirations, and \$72 million for Family Self-Sufficiency Coordinators.

For fiscal year 2004, the Administration proposes separate funding for vouchers under the new HANF account. The Project Based Rental Assistance Account will retain funding for renewals of expiring project-based rental assistance contracts under Section 8, including amounts necessary to maintain performance-based contract administrators. An appropriation of \$4.8 billion is requested for these renewals in fiscal year 2004, which is a \$300 million increase over the current fiscal year. In addition to new appropriations, funds available in this account from prior-year balances and from recaptures will augment the amount available for renewals and will be available to meet amendment requirements for on-going contracts that have depleted available funding, as well as a rescission of \$300 million.

It is anticipated that approximately 870,000 project-based units under rental assistance will require renewal in fiscal year 2004, an increase of about 50,000 units from the current fiscal year, continuing the upward trend stemming from first-time expirations in addition to contracts already under the annual renewal cycle. The HANF account funds an estimated 30,300 units in subsidized or partially assisted projects requiring tenant-protection vouchers due to terminations, opt-outs, and pre-payments.

Public Housing is the other major form of assistance that HUD provides to the Nation's low-income population. In fiscal year 2004, HUD anticipates that there will be approximately 1.2 million public housing units occupied by tenants. These units are under the direct management of approximately 3,050 PHA's. Like the Section 8 program, tenants pay approximately 30 percent of their income for rent and utilities, and HUD subsidies cover the remaining costs.

HUD is programmatically and financially committed to ensuring that the existing public housing stock is either maintained in good condition or is demolished. Maintenance is achieved through the subsidy to PHA's for both operating expenses and modernization costs. Legislation to implement a new financing initiative is included and enhanced in the Fiscal Year 2004 Budget. This will allow for the acceleration of the reduction in the backlog of modernization requirements in public housing facilities across the Nation.

The formula distribution of funds through the Public Housing Operating Fund takes into account the size, location, age of public housing stock, occupancy, and

other factors intended to reflect the costs of operating a well-managed public housing development. In fiscal year 2004, HUD will increase the amounts provided for operating subsidies from \$3.530 billion to \$3.559 billion, plus \$15 million to fund activities associated with the Resident Opportunities and Supportive Services (ROSS) Program.

The Public Housing Capital Fund provides formula grants to PHA's for major repairs and modernization of its units. The Fiscal Year 2004 Budget will provide \$2.641 billion in this account. This amount is sufficient to meet the accrual of new modernization needs in fiscal year 2004.

Of the funds made available, up to \$40 million may be maintained in the Capital Fund for natural disasters and emergencies. Up to \$30 million can be used for demolition grants—to accelerate the demolition of thousands of public housing units that have been approved for demolition but remain standing. Also in fiscal year 2004, up to \$40 million will be available for the ROSS program (in addition to \$15 million in the Operating Fund), which provides supportive services and assists residents in becoming economically self-sufficient.

To address the backlog of capital needs, the Department is including a legislative proposal in its 2004 Budget called the Public Housing Reinvestment Initiative (PHRI) that will allow PHA's to use their Operating Fund and Capital Fund grants to facilitate the private financing of capital improvements. This initiative also will encourage development-based financial management and accountability in PHA's.

These objectives would be achieved by authorizing HUD to approve, on a property-by-property basis, PHA requests to convert public housing developments (or portions of developments) into project-based voucher assistance. The conversion of units to project-based vouchers will allow the PHA's to secure private financing to rehabilitate or replace their aging properties by pledging the property as collateral for private loans for capital improvements.

The Fiscal Year 2004 Budget enhances this proposal, which was made in last year's budget request, by also proposing a guarantee of up to 80 percent of the principal of loans made to provide the capital for PHRI. There was substantial interest by PHA's and others in last year's budget proposal; the loan guarantee should greatly facilitate the involvement of private lenders. The budget includes \$131 million in subsidy for this guarantee, which would allow the guarantee of almost \$2 billion in loans and significantly accelerate the improvement in public housing conditions.

The PHRI reflects our vision for the future of public housing.

For 10 years, the HOPE VI program has been the Government's primary avenue for funding the demolition, replacement, and rehabilitation of severely distressed public housing. With \$2.5 billion already awarded but not yet spent, and an additional \$1 billion to be awarded in 2002 and 2003, HOPE VI will continue to serve communities well into the future.

When HOPE VI was first created, it was the only significant means of leveraging private capital to revitalize public housing properties. But that is no longer the case. Today, HUD has approved bond deals that have leveraged over \$500 million in the last couple of years. PHA's can mortgage their properties to leverage private capital. In Maryland, PHA's are forming consortiums to leverage their collective resources and assets to attract private capital. Cities such as Chicago are committing hundreds of millions of dollars of their own money to revitalize public housing neighborhoods. HUD is also seeking additional tools from Congress such as the Public Housing Reinvestment Initiative.

HOPE VI has served its purpose. Established to revitalize 100,000 of the Nation's most severely distressed public housing units, the program has funded the demolition of over 115,000 severely distressed public housing units and the production of over 60,000 revitalized dwellings. There are also more effective and less costly alternatives. The average cost per rebuilt HOPE VI unit is approximately \$120,000, compared to \$80,000 in HUD's HOME program. Only 20,000 new HOPE VI units have been completed to date. On average, 5 years pass between the time a HOPE VI award is made and a new unit is occupied. In contrast, during the same period, HUD's HOME program produced 70,000 new rental units with an average construction time of about 2 years. It is time to look to the future and pursue new opportunities, such as those I have noted, which can more effectively serve local communities.

Among HUD's other rental assistance programs, FHA insures mortgages on multifamily rental housing projects. In fiscal year 2004, FHA will reduce the annual mortgage insurance premiums on its largest apartment new construction program, Section 221(d)(4), for the second year in a row—from 57 basis points to 50 basis points. With this reduction, the Department estimates that it will insure \$3 billion in apartment development loans through this program, for the annual production of an additional 42,000 new rental units, most of which will be affordable to

moderate-income families, and most of which will be located in underserved areas. Additionally, because this program is no longer dependent on appropriated subsidies, FHA avoids the uncertainty and the suspensions that have plagued the program in prior years. When combined with other multifamily mortgage programs, including those serving nonprofit developers, nursing homes, and refinancing mortgagors, the FHA anticipates providing support for a total of some multifamily 178,000 housing units.

In addition to the extensive use of HOME funds for homeownership, the HOME program has invested heavily in the creation of new affordable rental housing. The program has, in fact, supported the building, rehabilitation, and purchase of more than 322,000 rental units. Program funds have also provided direct rental assistance to more than 88,000 households.

The Native American Housing Block Grant (NAHBG) and Native Hawaiian Housing Block Grant (NHHBG) are also used for a wide variety of affordable-housing activities. Several other HUD programs contribute to rental assistance, although not as a primary function. For example, the flexible Community Development Block Grant (CDBG) Program can be used to support rental housing activities.

Regulatory barriers on the State and local level have an enormous impact on the development of rental and affordable housing. HUD is committed to working with States and local communities to reduce regulatory and institutional barriers to the development of affordable housing. HUD plans to create a new Office of Regulatory Reform and commit an additional \$2 million in fiscal year 2004 for research efforts to learn more about the nature and extent of regulatory obstacles to affordable housing. Through this Office, researchers will develop the tools needed to measure and ultimately reduce the effects of excessive barriers that restrict the development of affordable housing at the local level.

Strengthening Communities

HUD is committed to preserving America's cities as vibrant hubs of commerce and making communities better places to live, work, and raise a family. The Fiscal Year 2004 Budget provides States and localities with tools they can put to work improving economic health and promoting community development. Perhaps the greatest strength of HUD's economic development programs is the emphasis they place on helping communities address locally determined development priorities through decisions made locally.

The mainstay of HUD's community and economic development programs is the CDBG program. In fiscal year 2004, total funding requested for the CDBG is \$4.732 billion. Funding for the CDBG formula program will increase \$95 million from the fiscal year 2003 enacted level, to \$4.436 billion. Currently, 865 cities, 159 counties, and 50 States plus Puerto Rico receive formula grant funds.

HUD is analyzing the impact of the 2000 Census on the distribution of CDBG funds to entitlement communities and States. Based on this review, revisions to the existing formula may be proposed so that funds are allocated to those communities that need them the most and will use them effectively. Any proposals will, of course, consider measures of need and fiscal capacity, as well as other factors.

Of the \$4.732 billion in fiscal year 2004, \$4.436 billion will be distributed to entitlement communities, States, and insular areas, and \$72.5 million will be distributed by a competition to Indian tribes for the same uses and purposes. This budget presumes legislative changes proposed in fiscal year 2003 to fund CDBG grants to insular areas as part of the formula, and to shift administration of the Hawaii Small Cities Program to the State. The remaining \$224 million is for specific purposes and programs at the local level and is distributed generally on a competitive grant basis.

As it did in fiscal year 2003, the Fiscal Year 2004 Budget again proposes \$16 million for the Colonias Gateway Initiative (CGI). The CGI is a regional initiative, focusing on border States where the *colonias* are located. *Colonias* are small, generally unincorporated communities that are characterized by substandard housing, lack of basic infrastructure and public facilities, and weak capacity to implement economic development initiatives. The Fiscal Year 2004 Funds will: Provide start-up seed capital to develop baseline socio-economic information and a geographic information system; identify and structure new projects and training initiatives; fund training and business advice; and provide matching funds to develop sustainable housing and economic development projects that, once proven, could be taken over by the private sector.

HUD participates in the privately organized and initiated National Community Development Initiative (NCDI). The Fiscal Year 2004 Budget will provide \$30 million for the NCDI and Habitat for Humanity, in which HUD has funded three phases of work since 1994. A fourth phase will emphasize the capacity building of community-based development organizations, including community development

corporations, in the economic arena and related community revitalization activities through the work of intermediaries, including the Local Initiatives Support Corporation and the Enterprise Foundation.

The Fiscal Year 2004 Budget provides \$31.9 million to assist colleges and universities, including minority institutions, to engage in a wide range of community development activities. Funds are also provided to support graduate programs that attract minority and economically disadvantaged students to participate in housing and community development fields of study.

Grant funds are awarded competitively to work study and other programs to assist institutions of higher learning in forming partnerships with the communities in which they are located and to undertake a wide range of academic activities that foster and achieve neighborhood revitalization.

The Fiscal Year 2004 Budget requests \$65 million for the Youthbuild program. This program is targeted to high school dropouts ages 16 to 24, and provides these disadvantaged young adults with education and with employment skills through constructing and rehabilitating housing for low-income and homeless people. The program also provides opportunities for placement in apprenticeship programs or in jobs. The fiscal year 2004 request will serve more than 3,728 young adults.

The Community Renewal Tax Relief Act of 2000 authorized the designation of 40 Renewal Communities (RC's) and 9 Round III Empowerment Zones (EZ's), and provided tax incentives which can be used to encourage community revitalization efforts. Private investors in both RC and EZ areas are eligible for tax benefits over the next 10 years tied to the expansion of job opportunities in these locations. These programs allow communities to design and administer their own economic development strategies with a minimum of Federal involvement. No grant funds have been authorized or appropriated for RC's or Round III EZ's. Round II Empowerment Zone communities have received grant funding in the past, but after 4 years of funding, still have balances of unused funds available. Of course, all of the tax and other benefits associated with Zone designation remain intact. Also, both HOME and CDBG funds can be used for the same activities.

The Administration is deeply engaged in meeting the challenge of homelessness that confronts many American cities. Across the scope of the Federal Government, funding for homeless-specific assistance programs increases 14 percent in the Fiscal Year 2004 Budget proposal. We are fundamentally changing the way the Nation manages the issue of homelessness by focusing more resources on providing permanent housing and supportive services for the homeless population, instead of simply providing more shelter beds.

HUD is leading an unprecedented, Administration-wide commitment to eliminating chronic homelessness within the next 10 years. Persons who experience chronic homelessness are a sub-population of approximately 150,000 individuals who often have an addiction or suffer from a disabling physical or mental condition, and are homeless for extended periods of time or experience multiple episodes of homelessness. For the most part, these individuals get help for a short time but soon fall back to the streets and shelters. Research indicates that although these individuals may make up less than 10 percent of the homeless population, they consume more than half of all homeless services because their needs are not comprehensively addressed. Thus, they continually remain in the homeless system.

As a first step, the Administration reactivated the U.S. Interagency Council on Homelessness. Reactivating the Council has provided better coordination of the various homeless assistance programs that are directly available to homeless individuals through HUD, HHS, VA, the Department of Labor, and other agencies. And \$1.5 million is earmarked within the Homeless Assistance Account for the operations of the Council in fiscal year 2004.

HUD and its partners are focused on improving the delivery of homeless services, which includes working to cut Government red tape and make the funding process simpler for those who provide homeless services. The Fiscal Year 2004 Budget continues to provide strong support to homeless persons and families by funding the HUD homeless assistance programs at the record level of \$1.528 billion.

Several changes to the program are being proposed that will provide new direction and streamline the delivery of funds to the local and nonprofit organizations that serve the homeless population.

The Fiscal Year 2004 Budget includes funding for a new program to address the President's goal of ending chronic homelessness in 10 years: The Samaritan Initiative. Funded by HUD at \$50 million, the Samaritan Initiative will provide new housing options as well as aggressive outreach and services to homeless people living on the streets. This program is part of a broader, coordinated Federal effort between HUD, HHS, VA, and the Interagency Council on Homelessness.

In order to significantly streamline homeless assistance in this Nation and increase a community's flexibility in combating homelessness, HUD will propose legislation to consolidate its current homeless assistance programs into a single program.

The Administration is also proposing legislation that would transfer intact the Emergency Food and Shelter Program (EFSP) that administered by FEMA to HUD. The transfer of this \$153 million program would allow for the consolidation of all emergency shelter assistance—EFSP and the Emergency Shelter Grant Program—under one agency. EFSP funds are distributed to a National Board, which in turn allocates funds to similarly comprised local Boards in eligible jurisdictions. Eligibility for funding is based on population, poverty, and unemployment data. The Board will be chaired by the Secretary of HUD and will include the American Red Cross, Salvation Army, and the United Way, as well as other experts.

In addition to funding homeless supportive services, the fiscal year 2004 funds services benefiting adults and children from low-income families, the elderly, those with physical and mental disabilities, victims of predatory lending practices, and families living in housing contaminated by lead-based paint hazards.

Nearly two million households headed by an elderly individual or a person with disabilities receive HUD rental assistance that provides them with the opportunity to afford a decent place to live and oftentimes helps them to live independent lives.

The Fiscal Year 2004 Budget will provide the same level of funding for Housing for the Elderly and Housing for Persons with Disabilities as was requested for fiscal year 2003. The effectiveness of the Housing for the Elderly Program was evaluated this past year using the Office of Management and Budget's new Program Assessment Rating Tool (PART), and received low performance scores. The Administration recognizes the need to improve delivery of housing assistance to the elderly (Section 202) and will examine possible policy changes or reforms to strengthen performance. Funding for housing for the elderly is awarded competitively to nonprofit organizations that construct new facilities. The facilities are then provided with rental assistance, enabling them to accept very low-income residents. In fiscal year 2004, \$773 million plus \$10 million in recaptures will be provided for elderly facilities. Many of the residents live in the facilities for years; over time, these individuals are likely to become frailer and less able to live in rental facilities without some additional services. Therefore, the program is providing \$30 million of the grants for construction to convert all or part of the existing properties to assisted-living facilities. Doing so will allow individual elderly residents to remain in their units. In addition, \$53 million of the grant funds will be targeted to funding the services coordinators who help elderly residents obtain needed and supportive service from the community.

The budget for fiscal year 2004 proposes to separately fund grants for Supportive Housing for Persons with Disabilities (Section 811) at \$251 million. The disabled facilities grant program will also continue to set aside funds to enable persons with disabilities to live in mainstream environments. Up to 25 percent of the grant funds can be used to provide Section 8-type vouchers that offer an alternative to congregate housing developments. In fiscal year 2004, \$42 million of the grant funds will be provided to renew "mainstream" Section 8-type vouchers so that, where appropriate, individuals can continue to use their vouchers to obtain rental housing in the mainstream rental market. The Housing for Persons with Disabilities Program also received low performance scores when it was evaluated using the PART. The Department proposes to reform the program to allow faith-based and other nonprofit sponsors more flexibility in using grant funds to better respond to local needs. In addition, the reformed program would recognize the unique needs of people with disabilities at risk of homelessness, and give priority to serving this group as part of the Administration's Samaritan Initiative to end chronic homelessness.

One of the targeted uses of new incremental vouchers under the Section 8 program is for nonelderly disabled individuals who are currently residing in housing that was designated for the elderly. Disabled individuals are provided Section 8 vouchers to continue their subsidies elsewhere. If a sufficient number of applications for these vouchers are not received, the PHA's may use them for any other disabled individuals on the PHA's waiting lists. In fiscal year 2004, the Department will allocate \$36 million for the nonelderly disabled to fund approximately 5,500 vouchers.

HUD will also provide \$297 million in fiscal year 2004 in new grant funds for housing assistance and related supportive services for low-income persons with HIV/AIDS and their families. This is an increase of \$5 million over the fiscal year 2003 level and is based on the most recent statistics prepared by the Centers for Disease Control and Prevention. Although most grants are allocated by formula, based on the number of cases and highest incidence of AIDS, a small portion are provided through competition for projects of national significance. The program will renew all existing grants in fiscal year 2004 and provide new grants for an expected three new

jurisdictions. Since 1999, the number of formula grantees has risen from 97 to an expected 114 in fiscal year 2004.

HUD's Lead-Based Paint Program is the central element of the President's program to eradicate childhood lead-based paint poisoning in 10 years or less. In fiscal year 2004, funding for the Lead-Based Paint Program will increase to \$136 million from \$126 million provided in the President's request for fiscal year 2003. Grant funds are targeted to low-income, privately owned homes most likely to expose children to lead-based paint hazards. Included in the total funding is \$10 million in funds for Operation LEAP, which is targeted to organizations that demonstrate an exceptional ability to leverage private sector funds with Federal dollars, and funding for technical studies to reduce the cost of lead hazard control. The program also conducts public education and compliance assistance to prevent childhood lead poisoning. The President's budget requests an additional \$25 million for a new, innovative lead hazard reduction demonstration program to eliminate lead-based paint hazards in homes of low-income children, funded under the HOME program. This new program will provide creative ways of identifying and eliminating lead-based paint hazards—methods that will serve as models for existing lead hazard control programs, such as replacing old windows contaminated with high levels of lead paint dust with new energy-efficient windows.

Also included is \$10 million for the Healthy Homes Initiative, which is targeted funding to prevent other housing-related childhood diseases and injuries such as asthma and carbon monoxide poisoning. Working with other agencies such as the Centers for Disease Control and the Environmental Protection Agency, HUD is bringing comprehensive expertise to the table in housing rehabilitation and construction, architecture, urban planning, public health, environmental science, and engineering to address a variety of childhood problems that are associated with housing.

HUD is requesting \$17 million in fiscal year 2004 to meet the expanded costs of its Manufactured Housing Standards Program. This is a \$4 million increase over the current fiscal year. These funds will meet the costs of hiring contractors to inspect manufacturing facilities, make payments to the States to investigate complaints by purchasers, and cover administrative costs, including the Department's staff. Fees have been set by regulation to support the operation of this program.

Ensuring Equal Opportunity in Housing

In this land of opportunity, no one should be denied housing because of that individual's race, color, national origin, religion, sex, familial status, or disability. The Administration is committed to the fight against housing discrimination, and this is reflected in HUD's budget request for fiscal year 2004.

HUD is the primary Federal agency responsible for the administration of fair housing laws. The goal of these programs is to ensure that all families and individuals have access to a suitable living environment free from discrimination. HUD contributes to fair housing enforcement and education by directly enforcing the Federal fair housing laws and by funding State and local fair housing efforts through two programs: The Fair Housing Assistance Program (FHAP) and the Fair Housing Initiatives Program (FHIP).

The Fiscal Year 2004 Budget will provide \$29.7 million—an increase of \$4 million above the fiscal year 2003 level—under FHAP to support State and local jurisdictions that administer laws substantially equivalent to the Federal Fair Housing Act. The increase will provide: (1) An education campaign to address persistently high rates of discrimination against Hispanic renters (as identified by the 2000 Housing Discrimination Study); (2) funding for a Fair Housing Training Academy to better train civil rights professionals and housing partners in conducting fair housing investigations; and (3) additional funding for expected increases in discrimination cases processed by the State and local fair housing agencies as a result of increased education and outreach activities. The Department supports FHAP agencies by providing funds for capacity building, complaint processing, administration, special enforcement efforts, training, and the enhancement of data and information systems. FHAP grants are awarded annually on a noncompetitive basis.

The Fiscal Year 2004 Budget will provide \$20.3 million in grant funds for non-profit FHIP agencies nationwide to directly target discrimination through education, outreach, and enforcement. The FHIP for fiscal year 2004 is structured to respond to the finding of the 3-year National Discrimination Study and related studies, which reflect the need to expand education and outreach efforts nationally as a result of continuing high levels of discrimination.

Fighting predatory lending is an important activity for FHIP agencies, as reports continue to show that the abusive lenders frequently target racial minorities, the

elderly, and women for mortgage loans that have exorbitant fees and onerous conditions.

Educational outreach is a critical component of HUD's ongoing efforts to prevent or eliminate discriminatory housing practices. HUD will continue its work to make individuals more aware of their rights and responsibilities under the Fair Housing Act. A major study titled "How Much Do We Know" emphasized the continuing need for public education on fair housing laws; in fiscal year 2004, FHIP organizations throughout the country will continue to fund a major education and public awareness campaign in support of study findings.

The *colonias* have many barriers to fair and affordable housing in both rental and homeownership. Many of the residents are recent immigrants unaware of their rights under the Fair Housing Act. Funds will be targeted to FHIP agencies that provide education and enforcement efforts in those areas. FHIP-funded fair housing organizations with grants targeted to the *colonias* will provide residents with information on the Fair Housing Act and substantially equivalent laws and respond to allegations of discriminatory practices.

FHIP will continue to emphasize the participation of faith-based and community partners. Recognizing the tremendous impact that education has on the implementation of fair housing laws, virtually any entity (public, private, profit, and non-profit) that actively works to prevent discrimination from occurring is eligible to apply for funds under this initiative.

Faith- and community-based partnerships in FHIP will empower citizens by: (1) Encouraging networking of State and local fair housing enforcement agencies and organizations; (2) working in unison with faith-based organizations; and (3) promoting a fair housing presence in places where little or none exists today. HUD will emphasize partnerships with grassroots and faith-based organizations that have strong ties to those groups identified in the 2000 Housing Discrimination Study as being most vulnerable to housing discrimination, particularly the growing Hispanic population.

Promoting the fair housing rights of persons with disabilities is a Departmental priority and will remain an important initiative within FHIP. Fair Housing Act accessibility design and construction training and technical guidance is being implemented through Project Fair Housing Accessibility First (formerly called the Project on Training and Technical Guidance). The project, which is now in its second year, will provide training at 48 separate venues to architects, builders, and others on how to design and construct multifamily buildings in compliance with the accessibility requirements of the Fair Housing Act. During that same period, Project Fair Housing Accessibility First will maintain a hotline and a website to provide personal assistance to housing professionals on design and construction problems.

Promoting the Participation of Faith-Based and Community Organizations

HUD's Center for Faith-Based and Community Initiatives (Center) was established by Executive Order 13198 on January 29, 2001. Its purpose is to coordinate the Department's efforts to eliminate regulatory, contracting, and other obstacles to the participation of faith-based and other community organizations in social service programs.

The Center will continue to play a key role in fiscal year 2004 in facilitating intra-Departmental and interagency cooperation regarding the needs of faith-based and community organizations. It will focus on research; law and policy; development of an interagency resource center to service the faith-based and community partners; and expanding outreach, training, and coalition building. Additionally, the Center will participate in the furtherance of HUD's overall strategic goals and objectives—particularly as they relate to partnership with faith-based and community organizations.

On December 12, 2002, the President issued Executive Order 13279, "Equal Protection of the Laws for Faith-Based and Community Organizations." Its intent is to ensure that faith-based and community organizations are not unjustly discriminated against by regulations and bureaucratic practices and policies. The Order directs the Center to: (1) Amend any policies that contradict the Order; (2) where appropriate, implement new policies that are necessary to further the fundamental principles and policymaking criteria set forth in the Order; (3) implement new policies to ensure that the collection of data regarding the participation of faith-based and community organizations in social service programs that receive Federal financial assistance; and (4) report to the President the actions it proposes to undertake to implement the Order.

In compliance with Executive Orders 13198 and 13279, the Center will continue to participate in implementing HUD's strategic goals and objectives, as well as the following key responsibilities: Conduct an annual Department-wide inventory to

identify barriers to participation of faith-based and community organizations in the delivery of social services; initiate and support efforts to remove said barriers; widen the pool of grant applicants to include historically excluded groups; identify and reach out to faith- and community-based organizations with little or no history of working with HUD; work with HUD program offices to strengthen and expand their faith-based and community partnerships; and educate HUD personnel and State and local governments on the faith-based and community initiative.

Embracing High Standards of Ethics, Management, and Accountability

Improving the performance in HUD's critically needed housing and community development programs begins at home in the Department, by embracing the high standards of ethics, management, and accountability. The President's Management Agenda is focused on how we can better manage to fulfill our mission by addressing the Department's longstanding major management challenges, high-risk program areas, and material management control weaknesses. Accountability begins with clarity on the Department's goals, priorities, and expectations for performance results. We have integrated the goals of the President's Management Agenda with our budget, our annual management operating plans, and our management performance evaluation processes, to better assure accountability and results.

A key focus of the President's Management Agenda is to address deficiencies in HUD's management of its financial and information systems and human capital, which have hindered the Department's ability to properly control and mitigate risks in the rental housing assistance and single-family mortgage insurance programs. There are no quick fixes for these longstanding problems, but we continue to pursue a deliberate and methodical improvement process that is clearly demonstrating progress in improving HUD's program delivery structure and performance results.

Financial Management and Information Systems

A primary focus of the past 2 years has been on addressing the Department's most significant financial management systems deficiencies in the FHA, and on stabilizing and enhancing HUD's existing core financial management systems operating environment. The FHA Subsidiary Ledger Project is proceeding on-schedule as a multiyear, phased effort to replace FHA's commercial accounting system with a system that fully complies with Federal requirements, including budgetary accounting and funds control and credit reform accounting. A major project milestone was accomplished with the successful implementation of the new FHA general ledger system in October 2002. Enhanced funds control capabilities of the new system are scheduled for implementation in 2004, and FHA will continue to adapt and further integrate its 19 insurance program feeder systems over the next several years to achieve full systems compliance by 2006.

While FHA awaits the completion of these systems improvements, they have been working with the HUD Chief Financial Officer on a Department-wide effort to improve HUD's funds control. HUD's handbook on policies and procedures for the administrative control of funds had not been updated since 1984. We updated and strengthened these policies and procedures in a new Administrative Control of Funds Handbook issued in December 2002.

With respect to HUD's core financial management system, the HUD Central Accounting and Program System (HUDCAPS), we have been focused on stabilizing and enhancing systems operations to support the accelerated preparation and audit of HUD's consolidated financial statements. We eliminated two reportable conditions from the OIG's fiscal year 2000 financial statement audit related to: (1) The reliability and security of HUD's critical financial systems, and (2) controls over fund balance with Treasury reconciliations. We prepared mid-year financial statements in fiscal year 2002 and have begun the preparation of quarterly statements in fiscal year 2003. Our year-end audit and reporting process was accelerated by 1 month for fiscal year 2002, and we have plans for further acceleration the next 2 years to meet the OMB mandate for issuance of our fiscal year 2004 audited financial statements by November 15, 2004.

HUD has received unqualified audit opinions on the Department's consolidated financial statements for the last 3 consecutive years—a strong indicator of financial management stability and accountability. However, the audit of our fiscal year 2002 financial statements was not trouble free. It contained 3 material weakness and 10 reportable conditions. Addressing these remaining internal control deficiencies is a high priority for the Department.

While HUD's core financial management system, HUDCAPS, is substantially compliant with Federal financial management systems requirements, it is inefficient and expensive to maintain. We initiated the HUD Integrated Financial Management Improvement Project (HIFMIP) to study options for the next generation core finan-

cial management system to replace HUDCAPS. Previous HUD systems integration improvement efforts failed to fully meet their intended objectives due to inadequate planning and commitment. HUD is taking the time to properly plan this project. A HIFMIP Executive Advisory Committee was convened in January 2003—with representation from the Principal Staff of HUD’s major organizational components, including FHA and GNMA, and an advisory role has been provided for the HUD OIG. A new Assistant CFO for Systems was hired in October 2002, and Project Manager was hired for HIFMIP in February 2003. The HIFMIP Vision is scheduled for completion by January 2004, and feasibility studies with a systems recommendation by July 2004.

HUD’s overall fiscal year 2004 information technology (IT) portfolio will benefit from our continuing efforts to improve the IT capital planning process, convert to performance-based IT service contracts, strengthen IT project management to better assure results, extend the data quality improvement program, and improve systems security on all platforms and all applications. HUD is also continuing to pursue increased electronic commerce and is actively participating in the President’s “e-Government” projects to better serve all of our citizens and realize cost-efficiencies through standardized systems solutions in common areas of information and processing need.

Human Capital Management

HUD’s staff, or “human capital,” is its most important asset in the delivery and oversight of the Department’s mission. Effective human capital management is the purview of all HUD managers and program areas, and improvements have been geared toward meeting HUD’s primary human capital management challenges. HUD has taken significant steps to enhance and to better utilize its existing staff capacity, and to obtain, develop, and maintain the staff capacity necessary to adequately support HUD’s future program delivery. Building upon the REAP and TEAM management tools, a new staff resource estimation and allocation system implemented in 2002, HUD will complete a Comprehensive Workforce Analysis in 2004 to serve as the main component to fill mission critical skill gaps through succession planning, hiring, and training initiatives in a Five-Year Human Capital Management Strategy.

HUD is working to determine where application of competitive sourcing to staff functions identified as commercial would result in better performance and value for the Government. We have worked with OMB to ensure the appropriate amount and mix of competitive sourcing opportunities, taking into account the workforce we have inherited, including the significant downsizing and extensive outsourcing of administrative and program functions over the past decade. HUD’s Competitive Sourcing Plan identifies some initial opportunities for consideration of possible outsourcing, in-sourcing, or direct conversion studies to realize the President’s goals for cost efficiency savings and improved service delivery. HUD will continue to assess its activities for other areas where competitive sourcing studies might benefit the Department.

Strengthening Controls Over Rental Housing Assistance

HUD’s considerable efforts to improve the physical conditions at HUD-supported public and assisted housing projects are meeting with success. HUD and its housing partners have already achieved the original housing quality improvement goals through fiscal year 2005 and are raising the bar with new goals. However, HUD overpays hundreds of millions of dollars in rental housing subsidies due to the incomplete reporting of tenant income and the improper calculation of tenant rent contributions. Under the President’s Management Agenda, HUD’s goal is to reduce rental assistance program errors and resulting erroneous payments 50 percent by 2005. HUD has established aggressive interim goals for a 15 percent reduction in 2003 and a 30 percent reduction in 2004.

To achieve our erroneous assistance payments reduction goal, we have taken steps to reestablish an adequate HUD monitoring capacity in the field to oversee intermediary performance. Field staff is conducting intense, on-site monitoring reviews to detect and correct income verification and subsidy calculation errors. We are also working to provide intermediaries with improved program guidance and automated tools to more efficiently and effectively administer the rental assistance programs. Program simplification proposals are also under consideration, along with a pending legislative proposal for increased authority to perform more effective computer matching with tenant income data sources to enable intermediaries to perform upfront verifications of income used in rent and subsidy calculations. Updated error measurement studies will be performed on program activity in 2003 through 2005 to assess the effectiveness of our efforts to reduce program and payment errors.

Improving FHA's Single-Family Housing Programs Risk Management

FHA manages its Single-Family Housing Mortgage Insurance Program area in a manner that balances program risks with the furtherance of program goals, while maintaining the financial soundness of the Mortgage Mutual Insurance (MMI) Fund that supports these programs. The MMI Fund is financially sound and the single-family housing programs are contributing to record homeownership rates, with a focus on homebuyers that are underserved by the conventional market. Nevertheless, overall program performance and the condition of the MMI Fund could be further improved if all lenders, appraisers, property managers, and other participants in FHA's program delivery structure fully adhered to FHA program requirements designed to reduce program risks and further program goals.

In the past 2 years, FHA has initiated or completed numerous actions to improve the content, oversight, and enforcement of its program requirements, including consideration of alternative business processes. FHA developed 16 rules to address deceptive or fraudulent practices. This includes the new Appraiser Watch Program, improvements to the Credit Watch Program that will identify problem loans and lenders earlier on, new standards for home inspectors, a final rule to prohibit property "flipping" in FHA programs, and rules to prevent future swindles like the 203(k) scam that threatened the availability of affordable housing in New York City. These reforms, and the greater transparency they ensure, will make it more difficult for unscrupulous lenders to abuse borrowers. The HUD budget ensures that consumer education and enhanced financial literacy remain potent weapons in combating predatory lending.

In addition, FHA continues to enhance its staff capacity for administering this program area, and continues to achieve favorable property disposition results through its performance-based management and marketing (M&M) contracts. M&M contracts have resulted in a steady decline in FHA's property inventory, from 36,000 homes at the end of fiscal year 2000 to 30,113 at the end of fiscal year 2002. The loss per claim on insured mortgage defaults has been cut from 37 percent to 29.5 percent.

Conclusion

As we implement our proposed Fiscal Year 2004 Budget, we will also judge our success by the lives and communities we have helped to change through HUD's mission of compassionate service to others: The young families who have taken out their first mortgage and become homeowners, the homeless individuals who are no longer homeless, the neighborhoods that have found new hope, the faith-based and community organizations that are today using HUD grants to deliver social services, and the neighborhoods once facing a shortage of affordable housing that now have enough homes for all.

Empowered by the resources provided for and supported by HUD's proposed Fiscal Year 2004 Budget, our communities and the entire Nation will grow even stronger. And more citizens will come to know the American Dream for themselves.

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.

Thank you.