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COMMUNITY DEVELOPMENT BLOCK GRANTS (CDBG)—THE IMPACT OF CDBG ON OUR COMMUNITIES

FIELD HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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FIELD HEARING COMMUNITY DEVELOPMENT BLOCK GRANTS (CDBG)—THE IMPACT OF CDBG ON OUR COMMUNITIES

Monday, June 30, 2003

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

The subcommittee met, pursuant to call, at 10:01 a.m., 700 State Drive, Los Angeles, California, Hon. Robert W. Ney [chairman of the subcommittee] presiding.

Present: Representatives Ney and Waters.

Chairman NEY. Welcome. Today the subcommittee will hold its first field hearing of the 108th Congress to discuss the effects of the community relative to block rent or the CDBG program. And this is the Subcommittee on Housing Community Opportunity which is within the Financial Services Committee.

CDBG is generally recognized as the mainstay for target of community development of cities, counties and rural areas to be principally dependent as well as moderate income persons. The program attempts to strike an appropriate balance between local flexibility and national targeting to low and moderate-income persons.

It has developed this reputation for the past 28 years, and local officials constantly use CDBG funds to take on new challenges in the areas of housing, neighborhood development, public facilities in the division of Social Services.

The CDBG program emphasizes HUD's division of partnerships with State and local governments. Due to the flexibility and uses of CDBG funds, the program is in conjunction with many other HUD programs to target specific populations. Notwithstanding the flexibility of the program, rehabilitating and producing housing is the largest singular use of approximately 31 percent of the funds by entitlement communities.

Housing activities include rehabilitation of ownership and rental units assisting new construction, transitional, temporary housing as well as necessary site improvements and administrative assistance. The second largest use of the funds is approximately 25.6 percent of public facilities and prudent, and, I think, in that area as a more generalized area where we could find out the answers to questions where does it is actually go, and how does—how are those decisions actually determined?

Every year HUD provides block raised eligible communities to, one, central cities of metropolitans, MSAs; two, other population cities for the population of at least 50,000; three, qualified urban counties with populations of at least 200,000, excluding the population of entitlement cities; and four, State distributed funds to small communities that are not otherwise eligible.

HUD determines the amount of each entitlement rent by statutory dual formula uses several measures of community needs, including the extent of poverty, population, housing, overcrowding, age of housing and population growth in relationship to other metropolitan areas. I also want to at this time applaud the leadership of my colleague, our ranking member, Maxine Waters. She asked for this hearing, and the Congresswoman has invited me out to California here, and I want to preapologize to my relatives in El Monte, South El Monte, Fontana when they find out I'm here, I'm not able to get to their house. So it will cause a—I am going to make a phone call to them. I want to assure myself of that.

But I want to again thank Maxine Waters. She's played an active role in helping her property maximize their use of CDBG. We also support funds coming from the Federal government, but frankly loan members that have urban or rural settings, where are the funds going, where do they go, what type of input is out there from the Federal representatives of members of Congress themselves and how can they play a part in this process?

I'm from a very rural area of Appalachia in Eastern Ohio, and I just really want to thank the cooperation and spirit of cooperation that my colleague, our ranking member, Maxine Waters has shown in the U.S. Capital.

But I also would like to share that I appreciate the working relationship that we have developed. We have both discovered that working together, we can deal with the problems of rural America as well as the problem of urban America, and we are attempting to forge an alliance wherever we can to make sure that resources are directed both to rural and to urban. So my—my work on this committee has been extremely enjoyable because we have found that we can, indeed, have bipartisan efforts to deal with the problems that we're charged to take care of.

The Community Development Block Grants are important, too, in the economic development care to revitalizing neighborhoods and providing social services. CDBG funds may be used for a wide range of activities, including acquisition of real property, relocation and demolition, public services and assistance to profit-motivated businesses to carry out economic development and job creation, retention programs.

The City and County of Los Angeles received 92 and $38 million to deliver services. Section 108, the loan guarantee provision of the Community Development Block Grant program is one of the most potent and important public investments materials that HUD offers to local governments. It allows them to transfer a small portion of the CDBG funds into federally guaranteed loans large enough to pursue fiscal and economic revitalization projects that can renew entire neighbors. Such public support is often needed to inspire private and economic activity providing the initial resources

or simply the confidence that private firms and individuals may need to invest in distressed areas.

Section 108 loan guarantee funds are extremely important to me. One of my early accomplishments, when I went to Congress, was to discover Section 108 funds that were underutilized, and at that time, they were being scored in the budget. And they were not as attractive because they were being scored, and we went to work. And we helped move the Congress to not score the CDBG, and that year, I was able to pass legislation to identify $10 billion in CDBG—I mean, in Section 108 to be used 2 billion per year for five years to get into the cities to get involved with economic development. I understand some things have changed now in the way that Section 108 is looked at, but I think still, it's a very important tool that is either underutilized, misutilized or just misunderstood. And so we want to find out today what's happening with Section 108 here in Los Angeles.

Ms. WATERS. Thank you, Mr. Chairman.

It's eight years later, and LACDB will be dissolved at the year 2003. The City of Los Angeles will have access to $190 million of Section 108 guarantee authority available to the LACDB, and I would like to hear what their plans are for the reallocation of this money.

Earlier this year, the city requested that $50 million of the 196 million go to the city's community development division. I and the affected community specifically would like to know which projects or proposals does the city plan to fund with this funding? Also, I'd like to hear how does the city and the county plan to address their affordable housing needs? We understand that the mayor has organized $100 billion housing trust fund, and hopefully, we can learn some more about that today.

The primary purpose of the Community Development Bank programs were designed to create and to retain jobs in the empowerment zone, and I hope that our witnesses today can talk about jobs in relationship to the Community Development Bank programs. Because of the problems that we had here in Los Angeles, we were hopeful—we were supportive of the city and the county receiving exemption of the CDBG cap, and we increased the social services from 15 to 25 percent.

Some of the conditions that were identified when we had our problems here, certainly still exist and remain, and we need to examine the possibility of—as we have been requested to do, to look at permanent exemption for the 25 percent public services cap. I don't know where we are with that at this time.

Again, I'd like to thank the Chairman for holding this field hearing here in Los Angeles. I look forward to hearing from the witnesses today.

Chairman NEY. Thank you. Gentlelady, ranking member of the committee. And our first panel and the first witness.

By the way, this is in the 108th Congress the first time we have ventured outside the capital for a public hearing, so you'll be our first witness on this.

Nelson Bregon is the Deputy Assistant Secretary for the grant programs in the office of Community Planning and Development of HUD. And he's responsible for the management oversight of the

CDBG program the Section 108 loan guarantee problem and the home investment partnership program. He has a Bachelor of Arts from the InterAmerican University of Puerto Rico in 1976, and although he didn't attend the Ohio State University, he got close with Kent State University in Ohio in 1978. Prior to accepting his appointment at HUD, he was the Senior Vice President for the officer of community based securities of Ginny Mae, the Government National Mortgage Association, and we appreciate you and your staff for traveling to California. We'll begin.

STATEMENT OF NELSON BREGON, GENERAL DEPUTY ASSISTANT SECRETARY, COMMUNITY PLANNING AND DEVELOPMENT OF HUD

Mr. BREGON. Good morning, Chairman Ney, ranking member Waters, Mr. Clinton Jones and other members of the subcommittee. Thank you for giving me the opportunity to be here this morning as part of the subcommittee's examination of community and economic development activities for the City of Los Angeles.

As Chairman Ney indicated, my name is Nelson R. Bregón. I am the General Deputy Assistant Secretary for the Office of Community Planning and Development with the U.S. Department of Housing and Urban Development. I am a career employee with the department. I started with the department some 22 years ago, and I've been in and out of the private sector and the public sector on numerous occasions, and here I'm back with the public sector.

I'm here today on behalf of Secretary Martinez and Assistant Secretary Bernardi to discuss one of HUD most important tools for community housing and economic development. That is the Community Development Block Grant program which most of us refer to as "CDBG." As you are aware, State and local governments depend on HUD and a system of grants to support community economic development projects that revive troubled neighborhoods and spark urban revitalization.

This year, HUD has requested nearly $4.5 billion for the CDBG program to meet local community housing and economic development needs in more than a thousand eligible cities, urban counties, the 50 States, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and in the Insular Areas.

For fiscal year 2003, which is the fiscal year we're in, the City of Los Angeles received approximately $89 million in CDBG funding, and by the same token the County of Los Angeles received about $37 million in CDBG funding. We are all aware that one of the most important reasons for the success of the HUD-sponsored Community Development Block Grant program is its great flexibility and its reliance on local elected officials and community leaders to identify key revitalization projects and activities.

CDBG activities are initiated at the local level, based on a communities identified local needs, priorities and benefits to the communities. As identified in that community's Consolidated Plan, which is a document that is submitted to HUD in conjunction with the CDBG, the home and other formula grant programs.

Entitlement communities such as the City of Los Angeles may use CDBG funds for a variety of community, housing and economic development activities which focus on neighborhood revitalization,

economic development and the provision of improved community facilities and services to lower moderate income residents. Those communities receiving a grant are free to determine what activities to fund as long as certain requirements are met, including that the activity is eligible and, in addition, meets one of the three following national objectives: The first one is benefit to low and moderate income persons. The second national objective would be: Aid in the prevention or elimination of slums or blight; and the third is an activity that meets urgent community needs for which that community cannot find the financial resources to fund itself.

In addition to this requirement, 70 percent of an entitlement grantees CDBG funds—and this includes the Section 108 loan guarantee, it includes the economic development initiative grants, as well as the Brownfield economic development initiative grants, must primarily benefit low and moderate income residents. 70 percent of all these monies must primarily benefit low and moderate income residents. And this is calculated by HUD on either a one- or two- or three-year basis, depending on the period of time that the consolidated plan that is submitted by that grantee covers.

In most instances, we see that most communities have a three-year consolidated plan. Now, the responsibility for ensuring that local Community Development Block Grant funds meet Federal requirements rests initially and primarily with the executive authority and the mayor or the County Commissioner of each CDBG grantee, subject to schedule monitoring by representative of HUD in the case of Los Angeles, the county and the city, it is our Los Angeles field office representative that had the responsibility to monitor on a scheduled basis our grantees.

And by the same token, it's also conditioned on audits by HUD office of Inspector General. As we all know, working with local governments and nonprofit, mostly 501(c)(3) organizations, are an important conduit for neighborhood-based program delivery. Nonprofit organizations such as community development corporations or local development corporations are often asked to undertake projects that are inherently risky because of factors such as locations, which many have high crime, high vacancy rate, high poverty and a lot of this investment.

CDBG grantees utilize nonprofit organizations because they have specialized skills and neighborhood acceptance. It is important to note, however, that the primary responsibility for insuring that Community Development Block Grant funds are used to revitalize low and moderate income neighborhoods and that the projects and activities undertaken meet all programs, statutory and regulatory requirements, belongs to the CDBG grantee.

In this particular case, we're talking about the City of Los Angeles and the county of Los Angeles. The Community Development Block Grant program statute and regulations requires that grantees identify eligible activities that will provide benefits to communities, especially low and moderate income distress communities.

The flexibility of the CDBG program allows grantees to implement community development activities based on local decisions. Communities may choose to provide assistance to nonprofit organizations for neighborhood development initiatives as they deem necessary. The success of any community development initiative must

include accountability for use of program funds to create tangible results for the neighborhoods for which it serves.

Working together with local leaders, special officials and members of Congress, we at HUD have forged a partnership which has made CDBG a shining example of how government can work. CDBG provides funding for grantees to develop strategies revitalize neighborhoods, promote economic development and provide much needed social services.

Grantees have great latitude in the type of projects and activities that they may fund. As you mentioned, Mrs. Waters, and I agree, a grantee can undertake myriad of activities whether acquisition, disposition, housing rehabilitation, public facilities, social services, economic development, all within the realm of the CDBG program.

For instance, we have some statistics here that shows that in fiscal year 2002, entitlement grantees expended approximately $275 million for economic development activities, about $955 million for public facilities, about $518 million for social services and about $1 billion, the preponderance of the use of these funds for housing-related activities, either housing rehabilitation or down payment assistance or any type of housing assistance.

For the program year, Los Angeles expended about $15 million for economic development activities, about $44 million for public facilities and improvements, about 45 million for social services and approximately about $28 million for housing-related activities.

By the same token, the County of Los Angeles expended approximately $6 million for economic development, $12 million for public facilities and improvements, $9 million for social services and about $15 million for housing-related activities. As part of the CDBG program, each formula's grantee's responsible for developing its own consolidated plan that encompassed funding for the CDBG program, the home program, the housing opportunities for persons with AIDS and the emergency shelter grant program.

So each community prepares a consolidated plan for these four formula grants. They must hold a public hearing, and they must receive the input from the community as to which activities they would like to see funded in their particular neighborhood. HUD's CDBG program currently provides funds directly to entitle units of general local government, cities, town and urban counties, based on the statutory formula that Chairman Ney pretty much gave us what those parameters are, poverty, pre-1940 housing, growth lag and a number of statutory requirements that dictates how we distribute the money to our grantee clients.

The current method of funding appears to be satisfactory. A grant may not be disbursed. A grantee may not disburse CDBG funds until there is a legal obligation to pay. Generally when contracted goods and services have been delivered or provided. A grantee has full responsibility to assure that his contractors have conformed to all applicable program requirements and that invoices or other type of documentation are proper and represent goods and services provided consistent with the contract.

So the rule is that grantees can draw down the money, when they're ready to use. We have a three-day rule, as you all know, that once they draw down the money from Treasury, they have to disburse that money within three days. So hopefully, they have all

the documentation that is required for them to make that payment to a contractor or subrecipient, as the case may be.

I know that this subcommittee has some questions on Los Angeles Community Development Bank, and let me just mention some facts: In December, 1994, the City and County of Los Angeles received designation from HUD for a Supplemental Empowerment Zone in the area covered by the unsuccessful joint City, County and empowerment zone application.

So in 1994, there was an empowerment zone designation competition and, the City and the county applied. They were not successful in obtaining the Empowerment Zone designation, but the previous administration felt that it was a good thing to give a supplemental empowerment zone designation; and that's what this did. The purpose of the Supplemental Empowerment Zone designation was to provide a special name for the award to the City's hundred million dollars in economic development initiative which was a grant and $25 million to the County.

Now, once this grant money was received, one of the conditions was that this money must be matched with Section 108 loan guarantee funds, and both the City and the county did that. The EDI awards to Los Angeles City and County took place pursuant to a notice of funding availability published in the Federal register on December 7th, 1994. And the supplemental empowerment zone designation and the economic development initiative grant were awarded on December 21st, 1994.

Now, there are a number of different levels of accountability. The Los Angeles Community Development Bank, as an operating entity, is accountable to its Board of Directors, and as a subrecipient of the City and the county, it's also accountable to the City and the county. Concurrently, the City and the county, as CDBG grantees, are accountable to HUD for the expenditure of the Section 108 and the EDI funds by the Los Angeles Community Development Bank in compliance with applicable Federal statutes and regulations.

HUD does not have a direct contractual relationship with the bank. The contractual relationship is between the City, the County and the bank. And the City and the county are accountable to HUD for the uses of the EDI grant and the Section 108 loan guarantee funds. The original intent of the Los Angeles Community Development Bank was to fund economic development activities in some of the most economically disadvantaged areas of the City and the county, primarily the area of the supplemental empowerment zone.

The Los Angeles Community Development Bank has, in fact, utilized approximately $190 million from the combined City and County Section 108 and EDI awards to undertake economic development activities in the designated area.

Thank you very much, and this statement concludes my opening remarks. At this point, I will be more than happy to answer any questions that you may have.

I have next to me Mr. Stanley Gimont who is the Deputy Director for the Financial Management Division, and he's really the expert when it comes to the nuances of the 108 and the EDI grant program. By the same token, we have some of our Los Angeles field office staff members, Mr. Robert Ilymin who is our CBD director and he has a lot information as to the activities that are under-

taken by the county and the city utilizing CDBG funds, 108 funds, EDI funds, BEDI funds or any other HUD funds.

So at this point, I'd like to turn it over to you if you have any questions. Thank you.

[The prepared statement of Nelson Bregón can be found on page 80 in the appendix.]

Chairman NEY. Thank you for your testimony. The question I have is: When was the last time that the formula was reviewed, and do you think it's balanced between the east and the west?

Mr. BREGON. That's a very good question. In 1980 was when we came up with the dual formula that gave a community a grant, based on two formulas. We give that community the benefit of the doubt; and we give them the amount of the greatest formula.

Now, what has happened lately, Chairman Ney, is that with the 2000 data on population, on poverty, on growth lag, we've seen some major dislocations, if you will, from one community to another. We've seen that some communities are loosing maybe up to 20 percent of the CDBG formula grant, and other communities gaining 15 percent of CDBG funds.

So right now, the Department, the Community Planning and Development office in conjunction with the Office of Policy Development and Research at HUD, are looking at the formula, and we're looking at different ways that the formula perhaps could be either tweaked or changed altogether. And we will be making recommendations to Assistant Secretary Bernardi and to Secretary Martinez who will, in turn, make a proposal to you as to whether, in fact, the formula should need some sort of changes or not.

Chairman NEY. That was 22 years ago that formula was established, and that's why you, know, the question should be changed by you're saying that you're looking into it.

Mr. BREGON. That is correct.

Chairman NEY. Do you have an idea of a time frame when you will complete preliminary look at it, it will be given to Secretary Martinez, when he will come to us?

Mr. BREGON. Our Office of Policy Development and Research is telling us that by the end of the fall, they should have concluded their studies. As you know, we work very closely with the Office of Management and Budget. They make sure that they're always looking over our shoulder. Maybe there's someone here from OMB. So we'll be working closely with them. I would say early next year we will have—we'll be meeting with Secretary Martinez and start discussing what the effects and the impacts of the formula is.

Chairman NEY. In the fall?

Mr. BREGON. I would say late fall, that the report will come out, early next year. I would say February we'll be meeting with Secretary Martinez and giving him different options, if you will.

Chairman NEY. And if you could post us on the progress of that, we'd appreciate it.

Mr. BREGON. We will.

Chairman NEY. Los Angeles has a special exemption to allow 25 percent of the CDBG funds for public services use is the category. So what—what uses can be utilized under that category of public service?

Mr. BREGON. Public service. You are correct. The regulations stipulate that a community may not use more than 15 percent of their grant for public services. The City of Los Angeles was given an exemption, and they can use up to 25 percent as Congresswoman Waters indicated before. The monies can be used for mostly soft cost. It could be for meal for the elderly, it could be operating expenses for day care centers, it could be Meals on Wheels for handicap people. So it is pretty wide how this money can be utilized by—by a grantee.

Chairman NEY. How about—how about oversight between HUD, City, County? How would that work?

Mr. BREGON. Oversight?

Chairman NEY. Uh-huh.

Mr. BREGON. Well, as I indicated before, we do regular monitoring visits of our grantees. Because of our limited resources, we're doing about 40 percent of all grantees in monitoring on a yearly basis. So when we monitor the City, we also try to do the County because a lot of the activities are interrelated. A lot of funding is interrelated. So we do monitor the City and the county on a regular basis.

Chairman NEY. One other thing. My final question: Dealing as you would with urban and rural, do you—do you see any differences? For example, CDBG in towns of, you know, 4,000, 2,000 also went from what we call 5,000 a city—that would be a large City—we have a lot of places 2-, 300 people, and everybody knows about these funds, trust me. I mean, they're in the paper. They're in meetings. They're small towns.

Now, in—that's why I'm here to learn—and larger urban settings, I know there are people who care about these, but I would assume there would be—or let me ask this: Would there be a difference in communication on where these monies are going or could they go between the urbans and rurals, and is there a difference of how you look oversight between urban and rural?

Mr. BREGON. Yes, sir. As you mentioned on the entitlement grantees, we have central cities. We have cities with the population of 50,000 or more. We have urban counties with population of 200,000 or more. On the other hand, then we have the States. About 30 percent of the funding goes to—I'm sorry, 25 percent—25 percent of funding goes to states.

Chairman NEY. So the $4.5 billion gets divided. 75 percent goes to entitlement communities; 25 percent goes to the States. Now, how the States divvy up that money among the smaller designations is up to the States. Some States might say, "We're just going to divvy up the money by per capita," looking at how many low income residents a community has, and we're going to give them $80 per each low income resident.

Some other State says, "No, we don't want to do it that way. We going to do priorities," and perhaps our first priority is infrastructure. Our second priority is housing rehabilitation. Our third priority is public facilities. And then they would have all the smaller communities come in and compete for the money at the state level.

The State must do a consolidated plan just like an entitlement community. They must go around the entire state and receive input

from the smaller communities to be part of that consolidated plan that is submitted to HUD on a regular basis.

So the entity that is accountable to HUD for the small cities program is the state. It's not each individual community that receives its monies, but it's the state that entity that is responsible for the management and oversight of the State CDBG program.

Chairman NEY. Gentlelady? Counsel?

Ms. WATERS. Thank you very much.

I certainly appreciate your very well-organized presentation to explain the mission, the national mission for CDBG. I think I'm going to ask some questions that are directly related to this area. I want to know about the Community Development Bank first. I want to understand what happened.

We're going to have some more people here testifying today. The reason I'm so concerned about it at this point is because there are dollars that are now—that could be made available from that Community Development Bank to be used for other purposes or like purposes or purposes that are inconsistent with the intent of Section 108.

As I understand it, the Community Development Bank is no longer the Community Development Bank that, based on a decision by the city of Los Angeles with some maybe encouragement from the Inspector General based on a report, that there is no longer the Community Development Bank as we knew it. And that there's several things going on: Requests for some of that money again to be used for other purposes or for like purposes in different ways. And there's another part of this discussion that I'm recently just getting information about that talks about or discusses the venture capital firm that had a management contract of some sort with the Community Development Bank that placed or invested funds in some businesses.

Some of them went belly up, I suppose—but it's still in that portfolio—we still have some businesses who owe us money who are operating or they may be out of business, and there's further talk about selling off that portfolio in some way that may help us to recapture some of the debt—can I get some discussion on that?

Mr. BREGON. Sure. As I indicated originally, when the supplemental empowerment zone designation was given to the City and the county of Los Angeles, there was an EDI grant of $100 million to the City and $25 million to the County.

As a minimum requirement, Miss Chairman——

Ms. Waters, the City had to match the hundred million dollars of EDI grant with a hundred million dollars of Section 108 loan guarantees. The City opted to request a higher authority on the 108. So even though the minimum amount of 108 that the City had to apply for was a hundred million dollars, they indicated to HUD that they really wanted to do $300 million.

So the minimum requirement was a hundred million; so there was an additional $200 million in one-way authority for the City. So you are correct. The City has expended the original hundred million dollars to match the EDI, and in addition, they had spent about $4 million of the additional $200 million, so there's about $196 million in Section 108 authority which the City could use in

other areas outside the targeted area as long as they meet all the other requirements of the 108 program.

Ms. WATERS. Outside the target area?

Mr. BREGON. Yes.

Mr. GIMONT. And just as a final point, the original application that we considered in 1995 defined something called the Section 108 area outside—which included not only the zone, but other enterprise community areas designated within the City of Los Angeles as well as other census tracts and areas of the City which would meet certain low moderate income thresholds as well as poverty thresholds.

So that was the 108 area as defined in the original application, and our—our understanding at this point with respect to the City proposal is that of the initial $15 million, they would like to carve off the remaining 196, those funds will be expended within the area defined in the original application back in 1995.

Chairman NEY. Generally—can we have that broken down one more time? The whole——

Mr. BREGON. Sure. The—with the original empowerment supplemental empowerment zone designation, the City received $100 million of EDI grant, the economic development initiative grant—this is free money—the County received $25 million. The city and the county were to meet dollar for dollar the grant with 108 monies. The County did $25 million in 108, and the City, instead of doing the minimum, a hundred million, did 300 million. So now we're looking at a total amount of about $430 million.

Chairman NEY. 430 million?

Mr. BREGON. That is correct.

Ms. WATERS. Okay. Go ahead.

Mr. BREGON. Now, Miss Waters, you indicated that it has come to your attention that the City and the county will be closing down the bank. It is our understanding, that there is an agreement that the bank will cease to operate by the end of this calendar year. There is a portfolio there that is owned by the bank with a number of loans, many of them performing loans. Many of them nonperforming loans as well, and there is a venture capital fund that perhaps Mr. Gimont can give you more details as to how that works and how that came about and what are the nuances there with the venture capital.

Ms. WATERS. Okay. Before you go into that, I want to go back so that we can have a better understanding. The 50 million that's been requested by the city has been requested to be used in the same manner that it would have been used under the Community Development Bank and meeting the requirements of Section 108 expenditures?

Mr. GIMONT. Yes.

Ms. WATERS. Is that what you're saying?

Mr. GIMONT. The before profit businesses. That's what we approved in the original application in 1995, and that is how the city would propose to use this 50 million——

Ms. WATERS. No. I want to be on the same track.

Are they going to use the $50 million in the same area that they would have had to use it under the agreement that you had when you created the supplemental zone, or are they going to use it in

the way that you would use the original Section 108 money that could be used in—throughout the City in other ways that's identified for economic development?

Mr. GIMONT. Well, then let me back up a step. With respect to the $200 million that was over and above the $100 million required as to match the EDI funds, those 200 million could be spending what the City defined as the 108 area which included not only the zone, but the other enterprise community areas within the City as well as other census tracts and areas meeting certain poverty and low to moderate income thresholds.

Ms. WATERS. Well, tell me how that is matching money in order to get the money for the supplemental zone.

Mr. GIMONT. That——

Ms. WATERS.——the Section 108, 200 million or 300 million.

Mr. BREGON. There was a $100 million requirement, minimum.

Ms. WATERS. Okay.

Mr. BREGON. And in addition, to the hundred million, the city requested $200 million that has, let's say is less restrictive, the use of that monies is less restrictive than the original hundred million that was to match the EDI grant.

Ms. WATERS. Okay. So the EDI grant was 100 million. All they had to do was put up $100 million match.

Mr. BREGON. That is correct on 108.

Ms. WATERS. Okay. If they had only put up $100 million match, all of that money would have been confined to the supplemental zone; is that correct?

Mr. GIMONT. Right.

Mr. BREGON. That is correct.

Ms. WATERS. However, since they decided to use more for that match, you're saying that could be used anywhere——

Mr. BREGON. The original——

Ms. WATERS.——in the other zone.

Mr. BREGON. The original $200 million——

Ms. WATERS. Yeah.

Mr. BREGON.——they identified the service area larger than the supplemental empowerment zone. As Mr. Gimont indicated, it was the supplemental empowerment zone area other areas that showed high incident of poverty and low income.

Ms. WATERS. Well, let me——

Mr. BREGON. For instance——

Ms. WATERS. Let me just interrupt you. It seems to me that if it was—you already had Section 108 identified areas. There was no need for you to put that additional money into the match because you could use it any way that you wanted to.

Mr. BREGON. That is correct.

Ms. WATERS. So why did you—why did you put it into the match? Why did they put it into the match?

Mr. BREGON. The city requested at that time, they said not only did we have—they felt that the need of the community was so great that there was a market, there was a need in the community for more than the $200 million or the—and they decided that they wanted a larger authority under the 108 in the amount of $200 million more, and that is the grantees' prerogative. I mean, if the

grantee requests that and it's within the limits under the 108 program which is five times——

Ms. WATERS. Yeah, they would have done that or could have done that if you had no such thing as a supplemental zone——

Mr. BREGON. That is correct.

Ms. WATERS.——in the way that you normally use it.

Mr. BREGON. Yes, ma'am.

Ms. WATERS. What I'm trying to find out is, why was it connected to the supplemental zone?

Mr. GIMONT. That was a decision on the part of the city.

Ms. WATERS. Well, evidently the city felt there was more money needed in the supplemental zone; is that correct?

Mr. BREGON. That is correct.

Ms. WATERS. Okay. Now, if that is true—if that is true, then we have monies that are now from the Section 108 supplemental zone money, that you're telling me has more flexibility and can be used outside the supplemental zone. Who made that decision, and how do you make it?

Mr. BREGON. The grantee made that decision. The grantee told us which were the areas that they want to service with the additional $200 million.

Ms. WATERS. So now that the bank is closing down and we've got this 196 million, the City is talking about taking a portion of that and doing whatever it is they want to do with it. It doesn't have to be identified or confined to this supplemental zone area, and when HUD looks at that, what does HUD say as the oversight? Is that in compliance with the original purpose of the use of the Section 108?

Mr. BREGON. Yes, it is. The $200 million in addition to the already used $100 million that had to be used within the supplemental empowerment zone. In addition, they have used $4 million more into the zone, which they didn't have to do. Now, they have $196 million. Now, they're saying the bank is going to close. We want to use this 196 authority to do other Section 108 funded projects——

Ms. WATERS. So then——

Mr. BREGON.——in the larger area that we had identified to you HUD before——

Ms. WATERS. So when HUD worked the agreement with the city of L.A. For the supplemental zone and the application that included the 100 million plus, the 200 million——

Mr. BREGON. Yes, Ma'am.

Ms. WATERS.——there was something in that agreement that said you only have to use $100 million of this in the supplemental zone.

Mr. BREGON. That is correct. As a minimum.

Ms. WATERS. As a minimum.

Mr. BREGON. Yes.

Ms. WATERS. And you could have the flexibility to take the other 200 million and use it in what you have identified as areas——

Mr. BREGON. Areas of distress.

Ms. WATERS.——areas of need that would fit into whatever we call our Section 108 loan guarantee?

Mr. BREGON. That is correct.

Ms. WATERS. Okay. And you will, of course, show to the—the Congresswoman that agreement?

Mr. BREGON. Absolutely, ma'am.

Ms. WATERS. Okay. Thank you.

Mr. BREGON. Now, by the same token, all public documents, ma'am——

Ms. WATERS. Congresswoman wants to see the agreement.

Mr. BREGON. Okay.

Ms. WATERS. All right.

Mr. BREGON. Now, by the same token, let's say that the city says to us, now we have $196 million but we really want to use it citywide in any neighborhood, for any activity that is eligible under 108. If they decide to do that, then they would have to amend that agreement, and they would have to go perhaps even amend or consolidate that plan, perhaps even hold public hearings with the citizens of the City of Los Angeles and the county of Los Angeles and then go through that process of amending that agreement.

Ms. WATERS. Okay. Thank you. Now back——

Mr. GIMONT. Is it okay if I just put one additional point on that?

Ms. WATERS. Yeah.

Mr. GIMONT. It's—the real essence here is going to change——

Chairman NEY. Move your mike just a little bit closer. Thank you.

Mr. GIMONT.——is that no longer will the bank be responsible for deciding, making the lending decision would reside with the city's community development department as opposed to the bank. We're still carrying out the same activities. They're going to carry them out in the same areas that they identified in the original 1995 application when there will no longer be LACDB, making decisions as to what community development department as to which activities to fund.

Ms. WATERS. Okay. Now, a little bit about—well, if you can explain to me the contract between the venture capital company and what they did for the Community Development Bank, and I'll ask a little bit more when I get the Community Development Bank here a little bit more detailed question, but just your understanding—did you have to sign off on this also?

Mr. GIMONT. I did not sign off on the agreement between LACDB And Joint Ventures? No.

Ms. WATERS. This was between the City and the county?

Mr. GIMONT. No, this was between the LACDB And an entity known as Zone Ventures.

Ms. WATERS. And Zone Ventures.

Mr. GIMONT. Yes.

Ms. WATERS. So Zone Ventures was given an amount of money to go around and invest in venture capital. Let's find some businesses put some money into them that was going to make some money nor the bank; is that right?

Mr. GIMONT. Up to $35 million is my understanding.

Ms. WATERS. So they were given 35 million?

Mr. GIMONT. The agreement called for an investment in the bank of the partnership up to a maximum of $35 million.

Ms. WATERS. Now, what did they do with that $35 million?

Mr. GIMONT. They operated the fund to analyze the proposals for investment and when the—based on the applications they did receive, they elected to invest in a number of different businesses. I believe it was 15 or 16 business in total.

Ms. WATERS. I see. So some of that was management. They had management fees.

Mr. GIMONT. Yeah.

Ms. WATERS. How much, do you know what percentage of the $35 was management fee?

Mr. GIMONT. No, I do not right now.

Ms. WATERS. Okay. We'll talk to the Community Development Bank people about that.

And so what happened with that portfolio?

Mr. GIMONT. Some of the businesses are still up and active; some are in a condition that is called "hibernation," where they—they still exist on paper. There's some possibility that they may resurrect themselves and—and get back on their feet and a number of other businesses are totally closed and out of business—business consistent with the types of—types of investment that venture capitalists make which were primarily high-tech investments in the late 90's.

Ms. WATERS. I see.

And so now, you have—this portfolio some performing, some not performing, we want to sell it off. Who are we selling it to?

Mr. GIMONT. I would not use the term "sell" at this point. I would say——

Ms. WATERS. Give?

Mr. GIMONT.——divest. Divest their interest in the Zone Ventures' portfolio.

My understanding of the deal that is currently on the table is that there is a—an investment group interested in taking the LACDB interest in Zone Ventures. They really would not pay anything on the front end with respect to the past investments, the capital investments that have been made on the part of the bank.

However, they would be reimbursement for certain management fees that the bank has paid out to Zone Ventures over the past year or so. So the immediate return to the bank would solely be the management fees that they've paid out in the last 6, 12 months I believe.

And then, ultimately if some of the businesses went—went public, where you had initial public offering, and there was a significant upside to—to the investment made in the business, ultimately, the bank might see some return on that; but the primary return would go to the group that takes on the investment from here on out because they will continue to pay the management fees that are required as well as make any capital calls that are necessary in order to maintain the—the bank's percentage interest in these businesses.

Ms. WATERS. Okay. Let me see if I understand this: The—the joint venture firm that was doing the management for the Community Development Bank would substitute—who pays them management fees we would no longer pay management fees, and under this agreement, the group who is the recipient of the divested portfolio would be paying the management fees.

We would not receive any money from those performing or nonperforming businesses unless, of course, they went public, and then there's something in an agreement for in perpetuity that would say, "If this happens a hundred years from now, we want our money"?

Mr. GIMONT. I don't know what the outside time limit is as far as the return would be concerned.

Ms. WATERS. All right. Fine. We'll——

Mr. GIMONT. I also don't believe the agreement's been fully negotiated at this point.

Ms. WATERS. I see. Well, that's good. We'll see what we can find out some more detail about that.

Now, we're going to be talking with—with other panelists about this, but I also understand that if the $50 million is transferred, the balance that's left could be used in any way that the city would like to use it; is that right?

Mr. BREGON. Of the 196, if 50 is used for this revolving loan fund or business fund that is called under the community development requirement of the city, then, yes, you would have then the balance, the 146 available.

Ms. WATERS. And let me see if I understand this correctly: The 146, would the city have to go back out and amend the plan and hold hearings, or they could just spend it?

Mr. BREGON. If they're talking about using the same—funding the same activities in the same areas, then they would not have to come back to us. If they're talking about changing either the scope or the location of the activities, then, yes. They must come to HUD for a—with a formal amendment request, and before they do that, they must go back to the citizens and hold public hearings and go through the formal amendment process that is required in a regulation.

Ms. WATERS. If they were going to use it in any way different?

Mr. BREGON. Yes, ma'am.

Ms. WATERS. If they were going to use it in the same way, could they still contract with the joint venture firm to do the kind of work that was done for the Community Development Bank—that was under your original agreement—could they still do that again?

Mr. GIMONT. I would say that the city—I would think it highly unlikely that the city would go forward with a proposal of that nature, and they would certainly question it at this point in time.

Ms. WATERS. There's nothing in the agreement that would stop them from doing it. You're saying that HUD may not look kindly on it, but they certainly could if they were going to use it consistent with the way they had used the money in the bank; is that right?

Mr. GIMONT. There's nothing in the agreement right now to prohibit.

Ms. WATERS. Okay. I think that's all.

Chairman NEY. I just have a couple. It's a little bit more complicated than the fire truck we had in the CDBG back home, I'm sure.

I just kind of—I wanted to ask a question: What happened to the initial 100 million, where's that?

Mr. BREGON. That has been invested. That has been invested by the bank on a—for a number of loans to—for profit entities within the zone.

Chairman NEY. So we know where that—where that is?

Mr. BREGON. Yeah. Some of them that are businesses that are no longer in business that went belly up, and there's other businesses that are still performing and doing very well and hiring employees from within the zone, low income residents.

Chairman NEY. Do we know the percentage of the businesses that are—are hibernating or the percentage of the working, do we have those percentages, or can we get that?

Mr. BREGON. Yes. The City gives us a performance report on a yearly basis, and we would have that information available for you, sir.

Chairman NEY. And then would you rate this overall a successful venture as it went about?

Mr. BREGON. The—the bank venture?

Chairman NEY. I can give you a one to ten scale, if you want.

Mr. BREGON. I—well, I think one thing that we should take into consideration, Mr. Chairman, is that this is a very difficult area for difficult projects. I mean, HUD recognized the difficulty to the point where we were willing to match dollar for dollar giving them a dollar of grant money for every dollar that they invested. I think that that indicates the degree of—of risk that we all knew we were getting into. Measure performance—success can be measured in a number of ways: Has this bank had a positive impact on this particular neighborhood because they have created jobs, they have brought in private investment? I would say yes. Is there nonperformance portfolio out of whack with, let's say, Bank of America? I don't know.

Chairman NEY. Well, I understand what you're saying about the—some difficult investment. I mean, we—our projects, for example, in some areas are more simple. Some people may look at the projects and say, "What are those worth?" The impact of a community to actually have a fire truck to save somebody's life. If you don't have that, you lose your insurance in a small community, and it all starts to domino.

Some things are hard probably quantitatively to say what helped the community or didn't? You know, who got a job and month were able to further help their families. But there's got to be other—are you telling me this is such a unique project, or were there other projects in the history of CDBG that we can look and say, "How did we measure their success versus this project?".

Mr. BREGON. Well, we have—there's a couple of things: There is another bank which is the Cleveland Bank that is similar to this one. We have two other Community Development Banks: We haven't done a comparison as to performance, but perhaps we can do that and take a look at how well the other banks have performed in relationship to the Los Angeles Community Development Bank.

Chairman NEY. I would like to see that if you can get the information to myself or Congresswoman Waters.

Mr. BREGON. Absolutely.

Chairman NEY. One final question that I have, and I don't know if we answer this today or not: But if an area embarks on a project of major significance, which at the end of the day is, you know, a lot of money that is, you know, to go towards helping people, but if it has certain flaws and it doesn't then, you know, what happens to that money and how's the public ever served again to be able to utilize that money for the greater good of their communities?

Having said that, are you comfortable that the mechanism that we have—I'm talking about the Fed—is in place and is tight enough so that if a city or a county goes in one direction, they state they're going to do "A," "B," "C," and then all of a sudden for whatever reason, some of the businesses don't come through or whatever, they—they again change direction, but maybe they tell us, in fact, that they're not changing direction. How do we step in as the—as the Federal government to say, "Wait a minute. You've got to lay out your plan. Is it similar?" I mean, I'm relating some of the things you've said today.

Mr. BREGON. Yeah, right.

Chairman NEY. Are they going to come back with the same thing, and is it just take your word for it; or is there some type of set criteria that we have—they have to show?

Mr. BREGON. Absolutely, sir. And that's a very good question. As I indicated to you, the first thing we get from our community, our grantees is a consolidated plan. They tell us how they're going to spend the money. What are the activities they're going to undertake. As you heard throughout this testimony, activities has to be eligible, and they have to be one of the three national objectives that we talked about. As I have indicated, we do monitoring. And by the same token, our office of the Inspector General perform audits of our grantees.

So let's take the example of a community that says that they were going to do something, and when we go out, we find that they do—they did something totally different, perhaps to the point where that activity's not eligible or it doesn't meet one of the three national objectives.

At that point, we will have an audit finding, we will have a monitoring finding, if you will. If it's a matter of us going out and monitoring the grantee, if that finding is sustained, if the grantee cannot explain to us with satisfactory evidence, then we will tell the grantee we have $500,000 in ineligible uses of CDBG monies. You owe us $500,000 of general funds. Now you must repay this to your line of credit with general funds.

So what happens now is this particular community will go into their general fund, they will take $500,000, and they will put it back into the line of credit for CDBG and then reuse that money for an eligible activity.

Chairman NEY. One final question I have: Is the public hearing process different across the U.S., meaning, you have to notify a certain number of people, does it have to be advertised? Does it vary? I don't know what the questions is. Does it vary state to state community?

Mr. BREGON. It varies, sir. For instance, you can have a community like New York City. Our experience in New York City is that they might have five public hearings in the different one in each

of their burroughs. They might advertise it in a Spanish-speaking newspaper. A Chinese speaking newspaper.

They might have interpreters in all these public hearings, and that's the way they satisfy the citizens' participation requirement. You could have another community that says, "We're just going to hold one public hearing in City hall, and we're going to put it in a paper of general circulation and let everyone know that we're going to have one public hearing"; and everybody comes to one public hearing. So it all depends on the community.

Chairman NEY. It's open; correct? I mean, we really don't have—HUD doesn't say, "Here, here's the hearing process." This is loose or open compared to——

Mr. BREGON. Right. Each community give us a citizens' participation plan. As part of the consolidated plan, they give us something called a citizens' participation plan so the City of Los Angeles would say, "HUD, this is how we are going to reach out to our community." And we will monitor that as well. We will go out and say, "The City of Los Angeles said that they were going to have five public hearings, and they only had one." And we will confront them with that. And if we find——

Chairman NEY. But it may vary, though; correct——

Mr. BREGON. Yes, sir.

Chairman NEY.——community to community?

Mr. BREGON. Local decisions, local—a lot of flexibility in this program.

Chairman NEY. Do they have to contact the office holders in all cases, members of congress?

Mr. BREGON. No, sir. It would be nice if they did, but they—they don't have to.

Chairman NEY. Okay. That's something we should—in my case, frankly again, we will see the notice. We get a phone call, and I'll get a call from any Commissioners; and that's basically how it works down home. Then we get a call from the people who, in fact, submitted a request or the Coalition of Appalachian Development or Housing Coalition or whatever. But I've always kind of assumed, I guess, that that was mandated by somebody else, and I guess it's not. It's just the way they're doing it where I'm from.

Mr. BREGON. We give them a minimum threshold. We say, "You must hold a public hearing. It must be accessible to people who speak other languages other than English.".

Chairman NEY. Does it state the time, the day of the week?

Mr. BREGON. It does not, sir.

Ms. WATERS. It doesn't say anything about public notice?

Mr. BREGON. It does say about public notice. We do tell them that it must be published in a—in a newspaper of general circulation, and some communities, for instance, say, "Look, our low income residents don't read the—the 'Los Angeles Times.' So what we going to do is we going to have fliers, and we going to distribute fliers door to door," some community might say. Some other ones say, "We will have ads on the radio, some of the Latino radio and the Chinese radio station, the African-American station, and we will put ads in," so it all depends.

Chairman NEY. So there's really no particular set standard?

Mr. BREGON. That's correct.

Ms. WATERS. Mr. Chairman, I know that you said that was the last question. I do have just one last question.

Chairman NEY. Go ahead.

Ms. WATERS. I'm looking at the Community Development Bank's $100 million expenditures, the companies that were loaned money.

Am I to understand that these companies are all in the supplemental zone?

Mr. BREGON. If it's for the hundred million——

Ms. WATERS. First 100 million.

Mr. BREGON. Yes, ma'am. They should be. Whether they are or not—for instance, the—our office of the Inspector General has performed an audit. They are some questions as to whether, in fact, all these companies are within the zone.

Ms. WATERS. The Inspector General's report does discuss this?

Mr. BREGON. It does, ma'am.

Mr. GIMONT. It included a sample is my recollection. Not all—not 100 percent of the portfolio, but it included a sample is my recollection.

Ms. WATERS. I see. So it was a sample. So we don't know, based on the Inspector General's report, whether or not they were able to capture, you know, all of them—where all of these companies might have been operating from.

Mr. BREGON. But since there is a question, we have our field office working with the city to identify the location of each business, not only the ones that the IG select selected randomly, but we're looking at a hundred percent of the universe, if you will.

Ms. WATERS. So while you are looking at it, what if you discovered that they were not, what would you do?

Mr. BREGON. Then it would be an ineligible activity, and perhaps they would have to pay that money back to the line of credit.

Ms. WATERS. Okay. We will get that information from you also?

Mr. BREGON. Absolutely.

Ms. WATERS. Okay.

Chairman NEY. We have had some cases down home where we have a—the use of CDBG money created this pot of money, a policy that would pay in and pay out, somebody came in town, herds of people and then vanished, and by the time you found out what they had bought and purchased, it was too late. We try to, you know, recapture—recapture that money.

Ms. WATERS. Well, my curiosity was raised by the fact that I just happened to see something here that says the Summit Industries of Nevada. They may be, you know, California—Los Angeles company.

Mr. BREGON. I would hope they're not in Nevada, ma'am. That would definitely be a red flag.

Ms. WATERS. Thank you very much.

Chairman NEY. Thank you for your time. I appreciate your traveling.

[recess.]

Ms. WATERS. Thank you very much.

Mr. Chairman, we have a panel here that includes, first, Supervisor and President of the Board Supervisors, Yvonne Braithwaite-Burke who represents the Second district of the County of Los Angeles. She brings to the board of Supervisors more than 30 years

of experience in public service, and at the national and State as well as local levels.

She has focused a great deal of her energy on the needs and education of children, especially those cared for in the county foster child program. Supervisor Burke's Department of Science, Department of Affirmative Action Compliance. Community Development Commission, Department of Human Resources, Museum of Natural History, Department of Parks and Recreation and the county of Public Library and the Public Social Services.

Welcome, Supervisor Yvonne Burke.

We also have Mr. Clifford Graves, who is a General Manager for the Community Development—Development Department, City of Los Angeles. Mr. Graves is the new General Manager in the Community Development Department for the City of Los Angeles. He will oversee the department which creates economic, social and employment opportunities for individuals, families and neighborhoods in need. Prior to Mr. Graves' position as Vice Chancellor for fiscal—physical planning at the University of California, Merced and served as Executive Director of the City and County of San Francisco Redevelopment Agency.

Welcome, Mr. Graves.

Mr. Carlos Jackson, Executive Director Community Development Commission of Los Angeles County. Mr. Jackson joined the community development commission in June of 1983. On February 19, 1991, he was appointed as Executive Director of the Los Angeles County Board of Supervisors. As Supervisor director, Mr. Jackson directs the County's public housing approximately 3,640 units, housing rehabilitation Section 108 assistance, Redevelopment Community Block Rent and the Housing Revenue Bond programs.

Welcome, Mr. Jackson.

Also, we have here, is this—I think that we'll wait for the introduction of Mr. Sausedo.

Mr. Sausedo, How are you doing? I didn't recognize you, and it's been just a few months back that I'm trying to pick your brain about everything that was going on.

Mr. SAUSEDO. Okay.

Ms. WATERS. So I get to do a little bit more today.

Mr. SAUSEDO. Clean myself up.

Ms. WATERS. He's Chairman of the Board of the Los Angeles Community Development Bank. Thank you so much for coming today.

Chairman NEY. The Honorable Ms. Burke.

STATEMENT OF HON. YVONNE BRAITHWAITE-BURKE, CHAIR COUNTY BOARD OF SUPERVISORS, LOS ANGELES COUNTY, CALIFORNIA

Ms. BURKE. Thank you very much. Good morning.

And we want to welcome you, Chairman Ney, and Congresswoman Waters. Very pleased that you're here in Los Angeles at this Exposition Park Center which is growing and has really brought many dimensions to this area. I also welcome you because this is part of you're Supervisorial district that I chair and that I represent.

In fact, and Federal programs play a great—important part, of course, in this district. It's—in the county of Los Angeles, and I'm really here speaking for the entire County of Los Angeles, not just for the Second District. And there are two programs that are certainly very important, is the CDBG as well as the Section 8 housing voucher system that you maintain.

I do want to thank Congress, and particularly you Congresswoman Waters, for your support of CDBG and your support of many of the programs that are very important to Los Angeles. And we depend upon the support of Congress obviously for the growth and the extent to which we receive CDBG funds. Many of those funds that we have are not just CAPA projects. And we have some very successful CAPA projects, and I have to kind of distinguish the County of Los Angeles. Our funds are used only in unincorporated areas. In other words, our funds that we receive—is about a million people who live in the unincorporated area of Los Angeles County. There are 88 cities in that County so those 88 cities, their funds, the City of Los Angeles being the largest, of course, their funds go directly to them, and the 88 cities are funded separately; but we administer those million people and those areas that are in unincorporated areas where they do not have a City, and we're all the City they have, we're the mayor, the council and everything in those cases.

And so the impact of CDBG funds in those areas are so important, and first of all, we have been fortunate to have that waiver; and that 25 percent waiver has made it possible for us to do a number of things in terms of public interest projects. I hope that will continue.

I know it's supposed to terminate in 2004, but it's—we use those funds and we use them in a very positive way and in a diverse County, we have to realize that this is probably one of the most diverse counties in the world, 136 languages spoken.

So it's very important to try to address these separate communities, each of which have their demands, their needs. I can say to you, you know, we provide assistance in one community where there's really a lack of ability to relate to other communities adjacent to them. So we have to address each one of these individual communities and try to meet their specific needs and their resources.

I'd like to address—I know you're going to talk a lot about the Community Development Bank. We were part of that bank, and our portion that we are withdrawing is 15 million. It is our intention to use that 15 million for what is called the Los Angeles Eye Institute. It's a—an institute that is being established at one of the major complexes that exists in the unincorporated area that is covered by this empowerment zone and the Martin Luther King Drew Medical complex.

Much of our money, the CDBG money, has gone into that complex—housing, everybody open two large developments recently in terms of housing, whether it's rental housing or condo or home ownership, but a—surrounding that area. Major commercial development, but what we're really planning to so is to establish an eye institute which will provide care and also outreach to provide specialty eye care, in an institute in that area.

We will also probably include—some of those funds will go to what's called the Drew Child Care Center. So a lot of the—they're working together, so it will be child care as well as the eye institute that will probably be the beneficiaries of that 15 million we withdraw. So I think that we can be very proud of the funds that we have utilized in that Community Development Bank.

And all of it in those areas that are very in need—and I mean, very much in need—but what you see it, you can see it, you can look at it, you can walk, you know that those things have been very effective. Now, I'm not—I know that I won't be here tomorrow when you're talking about Section 8.

I just want to say a couple of things about that. The administration of Section 8, moving to the State, we feel would have a detrimental impact upon our Section 8 program. We have long waited for Section 8 as it is now. There are many people who were served after the earthquake with Section 8.

I have calls every day, people are homeless who are looking for Section 8, and to move it, this administration, we think would be an unnecessary labor as far as the administration and the bureaucracy. I know that these are very difficult times. They're difficult for us, they're difficult for the State, and I know they're difficult for the Federal Government; and we recognize that we have taken some cuts in CDBG, but to the extent that this program can continue in the very vital way that it has and continue to make impact is going to be very important for us.

And I know through these hearings, you'll be able to see how it's being used here, the dimensions of the problem as well as some of the solutions that have been provided by these very important funds. So I thank you very much for being here.

Chairman NEY. Thank you.

[The prepared statement of Yvonne Braithwaite-Burke can be found on page 85 in the appendix.]

Ms. BURKE. I won't be here during the rest of the panel. I see that Councilman Garcetti is here. If there are questions that you want to address to me, I'd be very happy to answer them.

And if not, Carlos Jackson will be able to address detailed questions about it in the bank.

Chairman NEY. Thank you for your attendance.

Ms. BURKE. Thank you.

Ms. WATERS. I'd like to thank you also for coming, and Carlos is here; and we can get into a bit more detail——

Ms. BURKE. Sure.

Ms. WATERS.——with him about the bank and some other things. But we do appreciate your coming making the statement about the important of these funds, too.

Ms. BURKE. And we appreciate the strong support we've received from Congress, and particularly, I know Congresswoman Waters has a deep interest in and has been a strong supporter.

Chairman NEY. I also appreciate having a former colleague here.

Ms. BURKE. Thank you very much.

Chairman NEY. Thank you.

Ms. WATERS. Thank you. Mr. Chairman, I'd like to introduce Councilman Garcetti representing the 13th Commercial District as Chair of the economic development and employment committee and

vice Chair of the housing and development committee. Councilman Garcetti has promoted affordable housing and strengthened unit intervention programs, community and senior centers and overseeing the expansion of after school programs.

Welcome, Councilman Garcetti.

STATEMENT OF HON. ERIC GARCETTI, MEMBER, DISTRICT 13, LOS ANGELES CITY COUNCIL, LOS ANGELES, CALIFORNIA

Mr. GARCETTI. Thank you very much, Congresswoman. It's great to be here, and I want to thank the Chair, Mr. Ney, for coming all the way out to Los Angeles. It's really wonderful to have you here. We're trying to beat the June gloom. So hopefully, we won't have it too much longer, and I hope you enjoy your stay. And I want to praise the leadership of Maxine Waters, too, and thank you for making this happen as well.

The testimony I'm going to give, I couldn't give two years ago: One, because I wasn't a councilman, so that makes it uneasy. But also, because I think the City of Los Angeles was in a very different place in terms of block rent, in terms of how we spent it, in terms of how we looked at it, and I have hopefully much better news, good news to share with you and not because I've been captured by the bureaucracy, not because I'm simply now on this side of things; but because I've seen this change, I've lived that change, and I've been a part of the change.

Cliff Graves will speak next who is one of the original authors of the block rent legislation from his work in D.C. Now as head of our community development department. An entire leadership team I think has really changed the way we do block rent from the city level.

My testimony will really focus on that. When I came here two years ago, we were almost, I think, two-and-a-half over our yearly balance, and we were being threatened by HUD of losing some of the block rent monies because we simply weren't spending it out. We really—the mayor and the council took a hard look at how they did it, the department, and we were able to in a year period really spend that down to the proper ratio that it should be at.

What we did in that process, too, is we changed the way that the grant is being spend, making sure that it was really going back to the root of the seed money that it's intended to be and not to just sustain programs, not to just be another place to fill in services, but something that would be encouraging entrepreneurialism, something that would encourage creativity and something that would plant those seeds in communities that would hopefully blossom into true community development.

I know that Los Angeles is a poor city and that it needs more resources. The census count has us at 22 percent. The official poverty line, obviously, if we go to 200 percent of the poverty line, we have the majority of our children being born into that essentially working poverty. And we have an estimated undercount of about 80,000, mostly people of color, which equals a loss of about $180 million in funding over the ten-year shelf life of that census.

And we have an extreme housing and homelessness crisis. We need to be building in this city about 8,000 units of affordable housing just to keep up with population growth. Most of that is not

migration. About two thirds of that is just the baby boom echo. So the baby boomers' kids are having kids, and we are building about 2,000 units of affordable units.

So each year we're falling behind by about 3,000 units. As a way of answering that, we have now—so that you don't think we're not putting our money where our mouths are, we build the largest affordable housing trust fund per capita in the country, which would be $100 million every year hereafter for the building of affordable housing. If you want to leverage that to about half a billion dollars a year, combined with the State funds, we've really prioritized that in a new and dynamic way.

Phil Mangano who is the President and Director of the Interagency Council on Homelessness recently came to our skid row and called it Calcutta to give you an idea of what his view and his extensive work throughout the country was. He really was struck by what he saw on our own skid row in Hollywood, where I represent is the second biggest population that we have some similar areas.

I think we do need an extension on 25 percent CAPA services where we do face a dramatic cut in-services. Now, I know it's not going to be easy to say, "Why are we funding services," and I think that block rent is intended again as seed money. But the way that we do services is not just to sustain programs and groups.

We really are focusing on those programs which do build capacity, intellectual capacity, work force capacity, things that—where it's read as services essentially as doing much more. As much CAPA infrastructure as a building because it's a human physical infrastructure.

If we do have the services reduced to the 15 percent level, about $11 million in direct services will be cut in the City. So please consider extending that waiver at the very least phasing it out over time for us to be able to see how we can use work force investment monies or other human infrastructure dollars to get there.

With the Community Development Bank—this has been one of the more fun areas to work on in the last two years, and we certainly, even though we are aren't directly overseeing the bank, our work in the City was—I think they're as experienced as anybody else to see what direction the bark had gone.

And when we look not at the bank itself, but at the problems, the civil unrest of 1992, you have essentially increase in unemployment in South Los Angeles; you have the problems which have manifested themselves have gotten even worse, and I think it would be one of the worst things we could do not to keep that Section 108 authority.

Now, what we do with it is the question: I think we can use the same target areas, the easy, the 20 percent poverty areas. And I would make the formal request the $1$96 million be kept available. But I think that the leadership team that we have, as opposed to what the bank was doing before, really has the experience, right here on my left, the knowledge and the know-how and the innovation to spend this in very creative ways, in capital deprived areas that will spur the economy, spur employment and deal with blight.

We should have the flexibility to use the section 108 funding to adjust these problems holistically. To be able to combine—and this is what we're trying to do in the council, too—our housing pro-

grams together with our economic development programs, and job training programs and our community development programs. Instead of taking these all in silos, we're trying to mix these grains together to really see in a community, you know, I don't think a child care is where the school district ends and the City begins, where one department ends and another one begins.

They want to see that mix of housing and economic development and education and work force development go hand in hand. I think the Section 108 authority is a critical piece of this. As I said, I couldn't have given this testimony two years ago, but I have a lot of confidence in this leadership team that we have right now.

We have a committee chair for the development committee which oversees the block rent and helped distributes it. We are now actually focusing on having yearly priorities. So it isn't just this big grab bag of different things, whatever we inherited. I'm really saying that nothing is safe anymore, that's on this table.

One of the four or five areas that we want this committee to really impact on, not just who do we know from one organization, depoliticize that process as much as possible, and I should say to both Congresswoman Waters and to Chairman Ney, that we really have a pretty apolitical process.

I know in a lot of places block rent is all about who knows who, and I see here that there's very—a small percentage of that really has to do with personal pet projects of any council members. It is spent, I think, in a very neutral and fair way. But increasing that and really focusing on certain policy areas, again, affordable housing, work force development, literacy is one of the areas that we're focusing on, too.

And quite literally, this is our lifeline to other programs. Surprisingly and not political and dealing with infrastructure issues, I think the way that I would categorize how we're dealing with the block rent money, and the last thing that I'll conclude with is I know that to talk about whether we should administer this differently.

To me, you know, I think the council level, the local level is one that is most in touch with what's happening out there, you know. Every Saturday I meet with constituents, I have office hours where people come up and talk to me where we get that kind of on-the-ground intelligence, but it's difficult to get through any departmental agency.

And certainly as you go higher up the—the food chain, I think it's more and more removed from the people on the ground. We have citizens' units for participation that have done some incredible things here. They are all representatives from the community, but they did polling for this entire city.

They took a political polster, one of the best in the country, and they actually came in and asked me about block rent money, where they would want to see it spent. I don't know if that's been done by a CPA in the country, but we then broke that down by district, and every council member has seen that.

That gives us a real jumping off point, not just to say, "One of my priorities as an elected official, I'm the gatekeeper, but what does my community want?" And lastly, with the Section 8 stuff, just goes—I know Supervisor Burke mentioned that, too.

I did want to say with our $100 million housing trust fund that I mentioned, a lot of what we're spending it on is the preservation of project based Section 8, which we really have a lot that is risking being lost, and so for us being able to keep that in place is critical, too, as we address the housing crisis and not falling further behind, but I will be here for the rest of the testimony and thank you very much for coming out here.

[The prepared statement of Hon. Eric Garcetti can be found on page 88 in the appendix.]

STATEMENT OF CLIFFORD GRAVES, DIRECTOR, COMMUNITY DEVELOPMENT DEPARTMENT, CITY OF LOS ANGELES, CALIFORNIA

Mr. GRAVES. That was great. Let me add my welcome to those that you've already had.

As was pointed out, I'm relatively new to Los Angeles and to this position, and I thought I'd open my testimony by reciting some numbers that amazed me when I got here. The City of Los Angeles is home to nearly 3.6 million people. 816,000 of them are below the poverty line. When you use a percentage like 6 percent or 20 percent, it hides the real number, but if you think of 816,000 people and compare those to the populations of other major cities, it gives you an idea of the magnitude of what we're trying to address here—147,000 families below the poverty line.

Supervisor Burke mentioned the number of languages that are spoken around the City. 226,000 persons are disabled. Focus on that absolute number to understand what we're dealing with.

Beyond the census figures, think about what's happening to the housing stock here. We grew by about 6 percent from census to census. That translates into new households. During that same period, only 5,400 dwelling units were added to the housing stock. That's a very simple explanation of why housing costs are increasing beyond the means of more and more of Los Angeles residents

Mr. Garcetti did mention the census undercount which concerns us deeply. The undercount (which we estimate at about 79,000) represents a large shortfall in Federal funding to which we would otherwise be entitled.

So this is the setting for our Block grant activities. One of the virtues of the Block grant program is the flexibility it provides to local officials to establish priorities and allocate resources. Los Angeles, with an allotment of approximately $90 million a year, takes advantage of that flexibility.

I'd like to go through the main categories of what we fund and give you a few examples: We spend about $41 million a year on public services. This includes the Community-Based Development Organizations. These fund a variety of services. We have a human services delivery system which integrates CDBG funds with other Community Services, Block Grant and others. We fund a number of youth and family centers, supplemental youth recreation and youth nutrition, just to name a few.

The impact of reverting to the 15 percent public services cap would be greatly felt. That amounts to an $11 million reduction, a 40 percent cut in the services we have been providing.

We also fund neighborhood improvement activities to the tune of about $9 million. These include such things as alley closure programs, code enforcement, nuisance property abatement, sidewalks and tree planting, the kind of things that increase the quality of life in our most difficult neighborhoods.

For public facilities, we have allocated approximately $6 million this year for such things as neighborhood parks, multi-purpose centers for seniors, and the Temple Beverly Recreation Center. As the Deputy Assistant Secretary pointed out, the framework for all of what we do is the multi-year consolidated plan. Our job is to make sure that the program is well publicized, that there's ample public participation and that we get creative ideas.

We then test the submitted applications for eligibility and compile them as a list which is made public. Then it's subjected to our community review process. Councilman Garcetti mentioned the Citizens' Unit for Participation cup, which is our public participation arm.

Members of that organization are selected to represent the various facets of the community. Most of the members are appointed by the city Councilmembers from each district. We also have a couple of at-large members. Mr. Garcetti mentioned the polling that they do. They hold several public meetings and hearings. They meet once a month. We go before CUP to explain to them what we are doing, any issues that we have. CUP will be deeply involved in our reprogramming effort, which we do to keep our spend rate within HUD requirements.

In addition to the CUP, we also post the consolidated plan on our Website. We work with 72 neighborhood councils. The City Council Committees hold hearings, and finally, the City Council reviews and adopts the consolidated plan. Once the plan is done, we submit an annual CAPERS report. This Consolidated Annual Performance and Evaluation Report to HUD discusses our accomplishments and issues. Every one of our CDBG-funded project is required to file a quarterly report with us. We review the reports which rolls up into HUD's own information system.

So we have a fairly good handle on where the money is going and its effectiveness. Is it perfect? Nothing is, but I think we're improving it every year. The monitoring that is done on the ground, is the one area that I'd like to see us improve.

Like most City departments, we could always use more funds, but we're trying to make our monitoring less of an audit and more of a technical assistance review. We work with a number of very fine agencies here in Los Angeles, but staying on the right side of the regulations isn't always the easiest thing to do. We're trying to shape our monitoring program to be more assistive to these agencies.

Moving to the Community Development Bank, you'll be hearing directly from Mr. Sausedo, but I'll give you the City's perspective on the Community Development Bank.

Chairman NEY. I don't mean to interrupt you, but just based on the councilman's statement, now will you be taking over the development bank? I didn't know if that was your reference?

Mr. GRAVES. The activities of the bank will be undertaken by the Community Development Department.

Chairman NEY. I didn't mean to interrupt you. I just wanted to make sure I could follow you.

Mr. GRAVES. The Community Development Bank was an experiment, and I think it was recognized as such when it was formed. And I think there have been a lot of lessons learned as a result of it. But as was pointed out by Mr. Bregon, when it comes down to do the loans go to the right places, and do they make a difference? Yes, they probably did. Was it the most efficient way of doing it? Probably not. And were there some things we will do better based on lessons learned? Yes, and I'll go through those.

The contract between the City and the Community Development Bank is in the form of a comprehensive agreement which lays out the roles and responsibilities of the bank and the other parties and obligates the Department to perform annual reviews to review annual business plans.

It is not the role of the City to get involved with individual transactions. The LACDB was set up as an independent body, and we have respected that. The question was raised about the Zone Ventures' aspect of the bank. That was a part of the original business plan that the bank submitted to the city and to HUD.

The agreement between Zone Ventures and the Bank is between those two entities. The city is not involved in that aspect of it. There is an issue of accountability here. I think this is one of the weaknesses of the original business plan. The Board of Directors of the Bank and the Bank itself are independent and accountable only to themselves with regard to the loans that they make, subject to the general criteria set forth in the funding.

However, the way I look at it, the LACDB is using CDBG money, for which the City is ultimately responsible to HUD. So any issues that arise with regard to the Bank, we end up holding the bag, and that has caused some concerns. I think we're addressing that through the transition.

I'd like to go to the lessons learned. And I think these are lessons which we will apply to the loan authority when we receive it. One is to make sure that the requirements of the program are really practical. For example, one of the more difficult charges that the Bank had was that it could not loan money to anyone except persons who had been turned down by other banks.

It was in effect, a lender of last resort. So that the loans that were funded for by the Bank generally were of a poorer credit than most banks would have. In retrospect, that probably wasn't necessary. It was more important where the money went and how to get the best community impact.

There is a need for more adequate financial and compliance controls. The bank had a very difficult set of requirements to follow, and we believe that under the Department, we will be able to apply the same type of controls that we apply to our own programs.

The bank was originally chartered to attract private investment as well as the HUD funds. This did not happen which left the Federal funds further exposed than I think they should have been.

And finally, with regard to strategic utilization of resources, the bank, lent money to individual applicants who met their criteria without regard to overall impact on an area, without regard to broader priorities that the City might have. We would like to be

able to utilize them in a targeted way in concert with other programs by our department and by the city.

To emphasize a point I think that's been made previously, of the $196 million in loan authority which still exists from the bank, we have asked HUD for an immediate allocation of $50 million to be used exactly as provided in the Bank's plan in terms of the activities to be funded and the geographic area to be supported.

We believe we can do this, Mr. Bregon said, without amending the current plan. We would like to amend the plan for the other $146 billion. The intent would be to continue to invest in the geographic area that the bank was chartered to invest in, but we would like the flexibility to use the funds for a broader range of purposes within the domain of Section 108.

We believe that that will allow us to use the funds more effectively and still carry out the spirit of the supplemental empowerment zone plan.

Mr. Chairman, I'll stop my remarks at this point.

Chairman NEY. Thank you.

[The prepared statement of Clifford Graves can be found on page 91 in the appendix.]

Chairman NEY. Mr. Jackson.

STATEMENT OF CARLOS JACKSON, EXECUTIVE DIRECTOR, COMMUNITY DEVELOPMENT COMMISSION, LOS ANGELES COUNTY, CALIFORNIA

Mr. JACKSON. Thank you.

First of all, I'd like to also welcome you to Los Angeles. And also, this is the first major opportunity that we have had a chance to express our support that the community block program here on the West Coast. Typically, we have to travel back east to express our needs, and to express, you know, what kind of things we need here on the West Coast. So this is a grand opportunity.

The Los Angeles County Community Development Commission is responsible for the Urban County Block Rent Program. We have 88 cities in the county of Los Angeles, 40—53 cities have a population of 50,000 or less. Of that 48 cities participate in our program including the City of south El Monte. But we represent approximately 2 million people, a million from the 48 cities, and a million in the unincorporated areas. In Los Angeles County, historically, the only corporate areas have been rated from all its commercial viable communities. Most of the cities either incorporate those areas and take you know the industry part, the manufacturing part, so we're spaced with communities and major infrastructure needs, major housing needs, some old housing style. So our focus is not only the unincorporated areas, but the 48 cities. And many times when I'm asked to describe what we do as an urban County, which happens to the largest one in the nation, we receive about $38 million annually. The allocation between the cities and the county is almost split down the middle. The cities get about 14 million; the unincorporated areas gets awarded about 16 million. We use the allocation formula that HUD uses for awarding the times, their allocations, we use the same with the county and 48 cities.

That has been in place since 1975, that policy that was adopted by the board. And we have found it to be very effective in terms

of working with the cities. Over the years, the cities have been responsible for developing the programs with the city council requiring approval of such a program. I work closely with each of the Supervisors for developing the unincorporated area programs, and that has been intact again since 1975.

I'd like to say that recently 93 percent—I'm sorry, 94 percent of the recipients have been low income residents of the County, both the cities and the unincorporated areas. Our focus is predominantly to—to look at how we can best improve the communities. Unfortunately, like the City of Los Angeles, you know, it's—it's dealing with a variety of resources. The County is not, and I have to focus really on the unincorporated areas. Our tax base is lower than—in other areas. The challenge that we have is how to leverage our resources. Because again, when you look at $60 million published or a million—of a million of unincorporated area, it's not a whole lot of money. If you look at the allocations made for by the Supervisorial district, the highest one which is in the first Supervisorial district is about $6 million, and has tremendous needs of money, development housing, infrastructure to the loan, communities that have not been intended to.

One of the matters that have—you have to asked me to address, which is more in detail than my testimony, was how our monies—how do we involve the communities? You know, it was mentioned that by law we're required to have one public hearing which is before the board of Supervisors when our action plan or consolidated plan is adopted, but we have—we have 60 communities throughout the unincorporated areas of Los Angeles.

We ask the cities, the 48 cities, to have their own community meetings. When you tally that, that's quite a few community meetings. We go to the community stakeholders invite them to participate, we will go to the churches. We go to other community organizations that will provide any input, not only as to what is needed. We return back to the community and say, "This is how the monies were allocated this past year" and ask feedback, not only up front but at the back end.

As an agency, we—I have the opportunity to look at public housing, Section 8, administration of the home dollars, the homeless dollars, as well as the monies for affordable housing, the community development of block rent. The challenge that we have is how best to leverage those dollars, because the needs are tremendous.

It's mentioned that the homeless crisis is surfacing again. It was interested in seeing that the—there was a plan of ten-year plan to eliminate the homelessness. Well, since I've been around, it's the second one. And that is really a confronting problem that I'm not sure no one—as one agency can resolve that problem.

It requires really a multijurisdictional agency. But there's one funding source that we have fortunately that we administer, and this is where I'd like to use the leveraging factor.

And it's the housing money that we get from the City of Industry which is for the redevelopment set aside, special legislation was passed in early 1990 at the State level. When we first started allocating dollars for this housing program in 1998, we have allocated $102 million from that fund, had to leverage $600 million and produced 2,400 affordable housing units, home ownership, special

needs housing, housing for domestic violence victims, emancipated youth, the whole gambit. Some of them have been used in the City of Los Angeles. How we can encourage similarly leveraging from other jurisdictions, not just from the County of Los Angeles.

We do a five-year consolidated plan. We just completed ours recently. Again, we go out and solicit information from the various communities that we're involved with, and then, finally, a formal public hearing before the board of Supervisors. But you know, our meetings have taken place prior to them.

Most of our funds, I would say—and I don't have the numbers handy—but it's been owned housing, economic development, public services and public facilities. And most of our public facilities are—are easily fund expended by the cities our 48 participating cities. The County unincorporated area needs really are prioritized around housing, economic development and public services.

Different from the City of Los Angeles, the counties have mandated prudent health, welfare, protective children's services, a variety of things that local jurisdictions are not faced with. The discretionary funds that the county has are very limited. So really the future of the Walkman program because it's a very viable program to look at these areas of needs that typically the County are not able to fund. And it really is a—it's a major challenge if you look at reducing our 25 percent from 50 percent. Overall, it's a $4 million loss for us.

I think poverty probably describes our world with the city as the mini HUD. We're responsible for assuring that their funds are spent properly and according to all the regulations. We're the grantee of the funds so that we're the ones who are responsible. For anything that doesn't occur, we have agreements with the cities for expenditures for eligibility in case there are disallowances, you know, we have a mechanism to recover those funds.

Even though it may have been political before, we have that mechanism and then we are also responsible for compliance in the unincorporated areas. We do—we have spent a lot of time over the years in improving our compliance systems. We have learned through experiences that in working with participating cities, we have to work with them a certain way with our CBOs, we have to do a lot up-front technical assistance because many are not equipped to deal with all the Federal regulations that area is confronted with.

Not only eligible projects, but as well how can they account for the expenditures which are—sometimes gets them in trouble. But we have done an extensive rebuilding of actually building up a system. We do desk top reviews, performances, we check their accounting systems before they are contracted to make sure that it can handle the funds coming in, and then we do our field reviews at the different sites. Not only the CBOs, but as well as the cities, as well as the county departments. And we go through a lot of data collection to make sure that the funds are accounted for.

The 108 loan program is a viable one for the county. Cities have been using the 108s to help them develop economic development packaging. For example, in the City of Santa Fe Springs, we had a $23 million project that was to clean up old oil tank field, and it has now become a very viable industrial warehousing facility

that creates over 600 jobs; but without the assistance of the 108 and their EDI and their bedding, they wouldn't have undertaken a particular project, and now it's become a major cornerstone in the southeast Los Angeles area.

We had just resumed work with West Hollywood again to do an economic development project. We have undertaken some in our area, in East Rancho Dominguez, West Altadena, which is in the 5th Supervisorial District. Because of the lack of resources that the county has, 108 is a field to us again to leverage and to get investments locally for viable projects.

And lastly in the Community Development Bank, I don't know if I have the pleasure or really, but I was beginning—I was there at the beginning of the bank; and if I have to reflect back as to what took place: One of the key—one of the key factors that the board of Supervisors took was that any project dollars belonging to the County required authorization by the County prior to any expenditure or commitment.

And the reason we did that was that the bank, when it first started, didn't have the administrative infrastructure to undertake all the requirements, Federal requirements and local requirements, that really would put them on the right track. We were conservative on how we approached that, and of course, the County took a lot of criticism being conservative; but the Inspector General report pointed out that administrative policies and procedures were not there.

For some reasons why some of the loans were made out of the zone or were questionable, there was environmental issues of clearances. So my staff spent a lot of time with the bank early on developing manuals and administrative policies and procedures to ensure the accountability took place, but I think that when we have two legal entities, the county and the city and our—we have five census tracks in the environment zone, supplemental environment zone, which equated about 13 percent of the area.

We were dominated, in essence, but in our agreement, we require that they—that it get approval from us for any expenditure or agreement. So we're protected on that. Now, we were confronted with trying to come up with viable projects in the five census tracks, and Supervisor Burke has identified one of them which I think will really assist the undeserved communities, the medical undeserved, and we're working with a group of doctors from Drew Medical University to look at this in terms of an eye institute.

But again, we're in a transition. We are requesting, you know, that once the bank is closed that the money reverts back to the County of Los Angeles and we already have anticipated how to spend those dollars. I'd be available for any questions.

Chairman NEY. Thank you.

[The prepared statement of Carlos Jackson can be found on page 114 in the appendix.]

Chairman NEY. Mr. Sausedo.

STATEMENT OF ROBERT SAUSEDO, CHAIRMAN OF THE BOARD, LOS ANGELES COMMUNITY DEVELOPMENT BANK, LOS ANGELES, CALIFORNIA

Mr. SAUSEDO. Good afternoon.

Now, Chairman Ney, and ranking Member Waters, and once again, my name is Robert Sausedo. I'm the Chairman of the Board of the Los Angeles Community Development Bank, and I was appointed to the Board of Directors by former Los Angeles City Councilman Marjorie Thomas in July of 1999 and subsequently elected by the entire Board of Directors to serve as Chairman of the Board in 2001.

My role as the Chairman of the Board is a nonpaid position and is strictly that of a volunteer. In short, I'm a community guy. That means what I say here, I have nothing to lose with respect to politics or what have you. I represent the community.

I—before I move on, though, I do want to compliment your staff, Congresswoman Waters, for always being there when a cause is to be made and being responsive. As you well know, there are times when you call certain political figures and don't get return calls, and staff is less than sufficient; so I do appreciate a good staff and always take the opportunity to compliment you.

I'm here today to offer testimony on behalf of the Board of Directors, and again, as a concerned citizen and volunteer. Additionally, I am joined by our President and CEO Mr. Steve Valenzuela for any of the more specific questions with respect to day-to-day operations of the bank.

Let me begin by talking about access to capital. As you heard earlier, HUD provided the bank with $100 million in Section 108 funds and $100 million in matching EDI funds. This is the City side of those funds. This extraordinary allocation of EDI was made in recognition of the additional risk and lending that the bank would undertake.

Credit risk was an enigma to most commercial banks resulting in capital star businesses in the intercity community of Los Angeles. The bank adopted credit guidelines and underwriting criteria similar to those employed by the largest commercial banks in the City. This was done, in part, to help facilitate co-lending with these banks in both these significant pledges made early on by three large banks in the Los Angeles area in 1995.

The pledges of co-lending with major banks were worth a lot less, of course, than imagine they just didn't show up. The Los Angeles Community Development Bank was forced to assume even greater risk than originally forecasted in order to meet unmet capital need for businesses in the empowerment zone.

So what have we accomplished? Let's talk about that. What have we accomplished? To date, the Los Angeles Community Development Bank has closed over 250 loans and investments totalling over $130 million in funding. We are especially proud of having received an award from HUD for implementing an innovative microloan program that funded over $1 million in loans to very small businesses in L.A. With an average loan size of $15,000 of LACBD funding, all of it in the form of EDI, reached approximately 70 businesses, while many of these very small junior experienced spent time expanding their businesses to create new jobs, I will say that the vast majority have either repaid their loans in full or are making good on their commitments.

The bulk of the loans made by LACDB have been to small- and medium-sized businesses in the empowerment zone and the one-

mile buffer which, by the way, is across the street from the empowerment zone. Okay. We have a number of success stories of businesses that remain open and viable that met the national objective of creating jobs for the benefit of low and moderate-income persons and that repaired their financial obligations to LACDB.

We also have experienced, as you all well know, some set backs—borrowers who have failed to execute their business plans and, of course, media stories about the bank's missteps. Rarely has the local press published a story prominently about the bank accomplishments in light of its challenges.

Recognizing that some companies require capital and not debt to further their business plans and create jobs, LACDB also partnered with Draper, Fisher, Jergenson and formed its own ventures. The partnership focused on funding early-stage investments and portfolio companies in the empowerment zone.

We formed a similar partnership with Fame Renaissance and Hancock Partners that focused on operating companies in the empowerment zone. The strategic exits from Zone Ventures partnerships relied heavily on continued vitality of the IPO and MNA markets. And as we've seen of late, with the .com busts, those markets somewhat have within dried up to some degree which affected our long-term strategy in short—that's the short of that.

We do, however, remain hopeful and optimistic that the economic benefits resulting from these efforts doing the new high-tech companies populating the empowerment zone in the central City of L.A. And possible zoning impact will continue far into the future. We've laid the ground work for the baseline infrastructure.

Let me talk about reduction of liabilities. In 2000, the bank, by direction of the Board of Directors, moved aggressively to defease its outstanding HUD debt, which as of July 2000, totaled $105 million. During 2001, the bank reduced the City and County's liabilities to HUD by $10 million and $4 million respectively, approximately 16 years ahead of schedule.

The reduction liabilities occurred through a defeasance of county long-term debt. The bank has successfully resolved all outstanding significant legal issues and prevailed on appeal and in the Supreme Court in overturning a 12 million-dollar judgment. Our Board of Directors continues to remain pleased with the hard work our senior staff put into this successful conclusion because we have, in short, one hell of a staff.

With respect to job creation, providing eligible companies with capital was always intended to be a means and not the end of economic development. The measure of success we strive for is job creation. Primarily benefiting residents hopefully of the empowerment zone and/or other low to mod persons. That's the standard set forth by the comprehensive agreement with the city and County of Los Angeles and that's the national objective set forth in the HUD regulations.

Each company assisted by LACDB is required to demonstrate they have the capacity to create one job for every $35,000 in financial assistance which is quite difficult to do, but it is what it is. Taken together the portfolio of companies are required to create approximately $3,800—excuse me, 3,800 jobs. So essentially, based on the money loaned, 3,800 jobs should have been created. Through

December 31, 2002, LACDB-funded small businesses have created 3,400 jobs. So what that means is that 90 percent of the goal—90 percent of the goal has been achieved, from a numbers standpoint. And while the number of empowerment zone residents benefiting from these jobs totals only one out of every five jobs created, low and moderate income persons hold 80 percent of the jobs created by those companies who receive funding. While we are proud of these accomplishments, we expected to achieve greater results, but to be quite frank, it was a difficult, difficult task to carry—pull that off and make sure that we reach the 51 percent number; but we continue to try and do that.

LACDB also understood that the federally funded job training and referral program operating in Los Angeles would provide our clients with the type of resources and workers they needed in a timely manner. Things like work source development and other entities in the community would be a resource that individuals could go to for training and job placement which and would augment the bank's activities which unfortunately, we're not up to par in meeting that opportunity.

When the founders of the Los Angeles Community Development Bank performing their strategies around what was anticipated to be our targeted customers, the economy shifted as a result of rapid growth in the technology sector. During this time, commercial banks lowered their lending standards and began to offer business loan products, and they were far more competitive and had significantly less red tape than the requirements that accompany Section 108 funding.

This resulted in LACDB taking on higher risk loans to businesses that would need to stabilize their infrastructure before they could follow through on their jobs creation commitments. In short, we got even riskier leans. I continue to remain significantly challenged as a board member when I hear statements made like, "The bank has failed at meeting its national objectives," or, "The bank is out of compliance," or, "The bank doesn't know what they're doing.".

It is important to note that the businesses that receive funding and remain in business are not required to create jobs within a specified period of time, but it appears that requirement for jobs creation is open ended with respect to the time line of—of the Section 108 commitment.

That said, current LACDB statistics once again show us the 90 percent achievement level. While it is true that the founders of LACDB intended for the bank to operate autonomously from the City, it is a significant departure from the truth to say the City of Los Angeles staff has remained hands off and unaware of the level of risk that is involved with LACDB lending, a significant departure from the truth.

Additionally, it is important to note that the reason the bank is moving towards closure, the reason the bank is moving toward closure is primarily due to the lack of political will to support the bank. In short, the bank was not set up to withstand changes in administration at the local and Federal level.

So where do we go from here? So where do we go from here? I will tell you as a third-generation citizen of this great City that I

am very proud to—to have been born, live in and will die in, I'm encouraged by the fact that this committee is asking the question: What are you going to do with remaining Section 108 funds when the bank closes?

As a suggestion, I offer the following: While the City of Los Angeles wants to expand on the uses of these funds to include housing development, I am of the mind that we cannot walk away from the job without defined specificity on how the funds will be utilized in the future. Additionally, it is my belief that we must maintain funding for our mid-size and small and/or microbusinesses.

Therefore, a significant portion of the remaining funds should be relegated to this activity and should include the areas of the City that meet the low income census track criteria while utilizing the 2000 census data, and not the 1990 census data. Additionally, as the LACDB moves toward closure, I believe local organizations that provide this kind of lending should be considered for tactical deployment of this resource. I offer the following highlights from South L.A. Rioting, opportunities for economic self-sufficiency ten years after the 1992 civil unrest written by two UCLA students, Mark Drisey and Danny Flemming, economic round table briefing paper: "When business is created and developed, you obviously have jobs, short of that statement. South L.A., in particular, was the hardest hit after the 1992 civil unrest with 547 buildings damaged in Los Angeles. 78 percent of—or 428 of those damaged were in South L.A.

For the purposes of this study, South Los Angeles included the planning districts of South East L.A., South Central Los Angeles and West Adams/Baldwin Hills. Of the 428 buildings damaged in South Los Angeles, only 19 percent had payroll paying estimates in 1999—excuse me, established. The 81 recovered buildings house 147 businesses employing 985 workers, an average of 7 workers per establishment.

Of the 195 workers comparatively, they were paid 15 percent lower wages than their counterparts in other parts of the City. The South L.A. Workers are paid an average monthly salary of $1,707, which annually is about $20,884, below poverty wages for a family of four in the county.

One of the fundamental problems faced by South Los Angeles residents in 1992 was the shortage of jobs. At the time, there was only one job to be found in South L.A. For every 4.5 residents, making it the most out—making it the most job scarce area in the City. According to the economic round table study presented in April of 2002, by 1999, there was a slight decline in City-wide job availability, but a precipitous decline in South Los Angeles.

In 1999, there would 2.8 residents per job Citywide and 7.2 residents per job in South Los Angeles. This means that there were only one third as many jobs per residents in South L.A. as in the City as a whole. By the end of the decade, South L.A. had a joblessness rate higher than that—the City average, but three times higher than the national average, three times higher.

What does this mean to distressed communities in Los Angeles, particularly in South L.A.? It means that the initial designation of the $400 million to boost the local economic engine has a long way to go to create jobs and businesses. Rather than place the $198 mil-

lion in other areas, why not designate at least half of those dollars to be placed at the local level and local community-based business expansion and job creation retention organizations.

If you'll allow me a couple more minutes, I will come to a close. Let me give you an example of that statement: The community financial resource center in L.A.'s first private partnership in 1993, in its tenure of community economic development service of the community, it is based right here in South L.A.—by the way, I'm not advocating for one group. What I'm advocating for is that we take the remaining dollars, identify the people that do what LACDB was formed to do, but they do it well, and have a coalition of lenders throughout the City that help these underserved communities.

I will leave that example open for your reading that since I happen to note in the interest of time, but I want to drive this message home: There are many reasons why we should continue to employ capital to small businesses and inside business in Los Angeles.

Some additional reasons are: Of the 6 million people estimated to move into California between 1999 and 2010, approximately 900,000 will call Los Angeles home creating a 24 percent increase in Los Angeles's growth rate. Over the next five to ten years, approximately 20,000 to 30,000 people in California will be released from prison. On an annual basis, landing in communities being underserved, poor and low income, where will they work? As communities expand, the need for small businesses required meet the needs of local communities. This is driven by the need for inability for big bucks developers to keep up with the growth rate. Increased businesses mean increased taxes which mean you get a chance to increase the services. As a citizen of this great City, I implore this committee to keep the focus on standing on the side of what's right in supporting our local economy. Thank you.

Chairman NEY. Thank you for your testimony. I have a couple of questions just for my complete clarification.

[The prepared statement of Robert Sausedo can be found on page 124 in the appendix.]

Mr. Graves, you will, under your auspices of the city, will take over the bank in December; is that right?

Mr. GRAVES. We will.

Chairman NEY. Functions of the bank.

Mr. GRAVES. The bank functions basically, yes.

Chairman NEY. And then, you feel that you're ready, not you, yourself, you know, the organization is ready to do that, the transition would be occurring in——

Mr. GRAVES. Yes, I do. Keep in mind, Mr. Chairman, that the department already administers the rest of the 108 program. So we would essentially be merging that into our capacity, the same is true with the EDI grants.

Chairman NEY. Now, originally the bank, I think it was your statement that it was an independent body from the City. It was completely independent.

Mr. GRAVES. It was set up——

Chairman NEY. In '94.

Mr. GRAVES.——in '94, '95 as an independent body, but the idea was—is that a body that was not bogged down by the red tape of

the City or the County could become more aggressive in its economic development activities.

Chairman NEY. Was it independent of the County at that time in '94?

Mr. GRAVES. It was the same thing. As Mr. Jackson pointed out, their monitoring process was a little different than ours.

Chairman NEY. Looking back on it, if you have Government money that comes in, it's independent of the City and independent of the County, is that wise—I mean, you want to keep it, quote, "from the bureaucrats," or want to keep it, quote, "out of the hands of politics?" But sometimes political activities involvement, not on a partisan basis but how politicians actually vote on these items help these programs along. The use of an independent body took it completely out of the realm of the elected Representatives who have the responsibility for the funds. Unfortunately, if the independent body goes a little haywire, which I think it has in this case, then the elected officials say, "Well, it wasn't us."

The question I have is: If you reconstitute this will you have the same type of situation or how will it differ? If anybody wants to answer.

Mr. GARCETTI. Mr. Chairman, I think maybe the best metaphor for this was, if it was an arranged marriage and either of the spouses live together. So yeah, we have one in which they would——

Chairman NEY. Are either one of them alive? Has one left the country?

Mr. GARCETTI. Well, I think we have two alive today. When we look at, you know, whether we have the capacity to, I think we have to ask ourselves a question: In some ways the bank was put in a difficult position because there was never a clear policy direction.

Do we want this to have great jobs, or do we want this to have a portfolio that works? Do you want this to be a purely functioning financial institution, or do we want this to be something that creates jobs? In high risk areas, those are not going to always dovetail. In fact, it's almost possible to have them dovetail.

So I think that if the city takes over some of the affects in the way of authority, we're not in the business necessarily of trying to get the highest return in pure fiscal terms for a portfolio. What we are in the business of is getting the best return on a human portfolio, and I think that is something the bank in some areas did something really well.

Participating in a microloan program, that was one, I think, in which we see the best of entrepreneurialism, and see money going out there, and it was a model for the entire region, and arguably for the country. Those are the stories of successes on the bank side we want to build on new loans. But our own section of the loan program is definitely in place and ready to go and ready to spend that out in coordination with housing and job development programs.

Mr. JACKSON. Mr. Chairman, it wasn't totally independent. There was, through the comprehensive agreement, a relationship between accounting and the bank. We had——

Chairman NEY. Excuse me, but not the City.

Mr. JACKSON. The City had the same arrangement because there was a joint body and honor committee between the two entities that looked at program performance, looked at different types of——

Chairman NEY. Not to interrupt. I just want to follow. But I think Mr. Graves said it was autonomous.

Mr. GRAVES. Well, it was autonomous in the sense that we did not participate directly in their loan program, except for 108 passing through 108 applications to HUD. We did have an annual business plan which was reviewed by the county and the city up through the City council and the board of Supervisors.

Chairman NEY. Sure. Well, was there a vote on that plan, or was it just there; or did somebody say good or bad?

Mr. GARCETTI. Well, this information, we still have this coming before us, we decided last week, and since I've only been here the two years, that we get briefed on it and ask questions, and move on. There's no formal vote.

Mr. SAUSEDO. And that plan is co-authored by the bank, the county and the city.

Chairman NEY. What was the role then? If there was autonomy, what was or is the role of the City or the County then? What would you deem your role was? If there was an autonomy of this board, but what was the role, to monitor——

Mr. JACKSON. It's similar to like a nonprofit organization. We have an agreement that specifies program requirements, program activities, the target areas, and then like I mentioned, we were not satisfied initially with the establishment of the bank in this operation. So we—withheld any approval of any expenditures until we felt comfortable, and at that point, it was at that point that we allow expenditures, loans to be approved. But we were not involved in the daily operation of the bank. That was not our responsibility. So we had guidelines——

Chairman NEY. Whose responsibility was that, do you know?

Mr. JACKSON. That was the daily operation staff.

Chairman NEY. But you had an oversight on the daily—reporting mechanism to the City and the county that sees funds coming through for local control or——

Mr. SAUSEDO. The answer to your question is yes. I could probably have Mr. Valenzuela speak to that more specifically.

Chairman NEY. We need your name into the record.

Mr. VALENZUELA. I'm Steve Valenzuela, President, CEO of the bank. I think in Mr.——

Chairman NEY. How long have you been CEO of the bank?

Mr. VALENZUELA. I'm the President and CEO.

Chairman NEY. I'm sorry. How long have you been CEO?

Mr. VALENZUELA. Since March of this year. Prior to that, prior to six years, I was chief operating officer.

Chairman NEY. Who was the previous?

Mr. VALENZUELA. There have been two prior CEOs. The original CEO was Robert Kemp. He was the initial CEO from approximately June of '96 until about late 1999, and then the—we had an interim CEO for about six months in the form of a board member, Linda Griego, and then in February of 2000, the board appointed

William Chu as a CEO who served as CEO until March of this year. He's gone to private industry.

Chairman NEY. Thank you.

Mr. VALENZUELA. And your question was?

Chairman NEY. The question I had is: Who—well, I'd gotten to the issue of monitoring, and what I wanted to know: Is there's a certain amount of autonomy between the City and the county, say, that they do have a plan that they review. On a daily basis, as you all were operating the bank, how or do you or when do you report to the City and County and in what manner? Is it just reporting, or are they involved anyway in the decision making process?

Mr. VALENZUELA. Neither the County nor the City were involved in the decision making by the bank in terms of which loans or investments they were to make or approve. That authority rested with the Board of Directors and credit committee of the Board of Directors.

Chairman NEY. Okay. Which comes to the point that these are government minds that come down: Any decisions made at the end of the day, who was the bank accountable to? Just the autonomy agency of the board? I mean, was there any accountability to the City and County?

Mr. VALENZUELA. Well, each year I think as—I think as Mr. Graves indicated, each year the bank submitted under the term of the comprehensive agreement in October, an annual business plan to both the City and the county with copies to HUD, they would outline what the expected loan activity and investment activity was for that particular year.

And that—those business plans were—were reviewed and approved by the city and County, and while they didn't identify specific loans, companies or that we would be making specific loans to, it did identify the range of dollars that would be made to small businesses to microloans to the venture capital program.

We also work closely with the county, the City, and HUD used to participate as a stakeholder as well in oversight committees that would meet on at least a quarterly basis wherein we would report and the county, City and HUD would sit in on these meetings to listen in on the performance of the portfolio, the performance of the achievement of our business plan day and other activities.

We also reported on a quarterly basis to the City, County and HUD on our progress toward job creation with a detailed report showing how our borrowers, investees are doing with their job creation goals, jobs to date and some of the remedial actions that we would undertake in order to improve performance.

Chairman NEY. Congresswoman Waters has some questions, so I want to ask one final question.

When you talked about the—Mr. Sausedo talked about the analysis or about the jobs and the money spent, of the successful loans, is there a breakdown or an analysis of how much money was spent to create what job—was it 35,000 per job, 10,000 per job—is there some kind of average, number one, did that take into account, of course, the loans that didn't make it that were still funded that a person didn't get a job out of, but of the successful ones, was there a dollar figure per job that can be available out there?

Mr. VALENZUELA. That number is available. We're—we're—the county and the city required that we have quarterly compliance reviews that are conducted by an outside audit firm as well as quarterly financial reviews which are conducted by the same audit firm, and one of the evaluations that they conduct—and I can make that available, I don't have that information with me—is they look at that standard which, I believe, under the Federal regulations is one to 50,000 and—one to 35 for the bank. I think it's one to 50,000 in general. We have that information and can make it available to you.

Chairman NEY. I just want to—make one statement. We'll move on to the gentlewoman from California. It seems to me and this is something of importance to us because, you know, when you're in Washington, you're voting I'm all for local control. I'm a preacher of the legislature and you serve on the legislature also. I'm all for local control, but then if there's not a check and balance or an assessment or something, we can't just say, "Well, we're trying to help poor people." It doesn't actually overall do that, not because it was intentional, just because of a series of problems we represented. But then as we tried to support problems that become more difficult here or in Idaho or Ohio or larger or smaller places because it's more difficult to support them. People say, "Well, how effective was it?".

Also, one thing that's unclear to me—and I'll ask you right now—one thing that's unclear to me as you take your next step, was this, the whole request of money and the bank all geared towards helping distressed area and now as you recross this—I shouldn't say you, as this is reconstituted, is it really going to help the distressed areas, or is it going to go somewhere else where it really wasn't meant to be? I have a County at home right now, we're at 13 percent unemployment. It's horrific. We were at 17, but now we went to 13. I had a County that was 26 percent official unemployment, which was depression era on unemployment. As we went to help those counties who needed a wide variety of support, I think we had to get away from this generic, "Well, we're helping this area," and all of a sudden, the money comes in; and we create a small factory, but nobody in that County works in the factory. That's a problem.

You know, "Well, gee, this County adjoining it, if we help that County, those individuals that need that job are going to work there," but then in actuality, they didn't. And we had a, you know, major corporation of Honda. I just want to give a estimate of the $43 million to, they specifically would not interview anybody from my zip code. I mean, this is a fact. Of course, we didn't testify. I voted on that Honda loan, too, when I was in legislature. I just threw out there as this is all reconstituted, I just think that, first, you have to be careful of how you do it.

Mr. SAUSEDO. Absolutely, Chairman Ney. I'm three years into the bank. When I was brought here, I was looking, trying to find innovative ways to make our borrowers successful. For example, the stakeholders are the City, County and the feds. If there's something we can do with the procurement to give these people contracts to pay us back, that was one of the things we needed to discuss that was left out. This was an experiment, I think, that we

all have the benefit of hindsight and looking at and saying, "Well, we probably shouldn't have looked at it this way, or we could have done it that way" or given certain resources; and you're right, I mean, we have to target the areas, but some of the areas—for example, when we start looking at employment law, can we legitimately prevent someone from getting a job from someone who got a loan from us and not be in violation of labor law because they have to meet a specific criteria.

There are a lot of unanswered questions. But what I don't want to miss here is that there is a significant lesson learned here, and that is that with an entity like LACDB, what we can do is take the bureaucracy out of deploying money to businesses that need it immediately. And there are other institutions out there—I named one—but if there was the right coalition because what I don't want to see as a citizen is, to be very frank, which is take a hundred million, 50 million or whatever, put it in the hands of CDB and say, "Do the right thing.".

Chairman NEY. That's my—and it's going to take the will of what we call political or elected, and I have to be in preparation, and for the record not in the soft light of day, or we are going to shut the lamp off, if you know what I mean.

Mr. SAUSEDO. Right.

Chairman NEY. I'll just mention that I think there's got to be a lot of communication out there.

Mr. SAUSEDO. Absolutely. What we will tell you in short, is that this board—you can probably hear a little bit ever anger in my voice. And where that comes from is the Board of Directors on this bank are some very savvy folks, some of you know Professor Gene Grigby, who has now transitioned off the board. Rob Amens, Far East National Bank, and—just to name a couple notables. Denise Fairchild, these are people that are critical thinkers that analyze policy that understand business and that came here to do good.

We spent the last three years putting out fires, and it's a shame because the last three years, we weren't able to serve the community in the way that it needed to be served. What we were able to do is serve as a buffer to protect the City. And we don't get acknowledged for that, and I take issue with it.

I take issue when I hear statements like, "The bank did this wrong," but then when you call the City council members to sit down when they're newly elected to say, "Let me share with you where we've been and where we're going" and you don't get a return phone call, and you walk the halls on your own time twice to do it, there's a disconnect; and the disconnect with any organization is when there's lack of communication, that is ultimately going to lead to failure. And we cannot not, not let that happen again.

Chairman NEY. Congresswoman?

Ms. WATERS. Okay. This has been—this is—I'm going to try and have questions for each of you.

Mr. Garcetti is an elected official. I've got to ask some questions that may be a little bit uncomfortable.

Mr. GARCETTI. Please do.

Ms. WATERS. But I was drawn into making this work kind of a priority despite all the issues that we're confronted with. There's

Medi-Care reform and all of that. I said I got to pay attention to CDBG Section 108 and the development bank and how it all works.

And the reason that I was made to focus on this is several things happened: One was I was sitting with angry young people at one time who said, "The Federal Government doesn't give us any money." "If it wasn't for my City councilman, I wouldn't get any funding." He was talking about Federal money. He was talking about CDBG, and I thought about it; and I said, "Well, you know, there is a lack of understanding about where this money comes from.".

Now, for people like me who are tagged as old taxing spare liberals who push for money to be sent to my community, I don't like it when somebody says you don't spend any money. Then, I began to pay attention to campaign brochures where some local elected officials were politicking with the money, I'm leaving some blood on the floor here in Congress.

This is what I did as a City councilman. I developed a shopping center. I did this. I did that, whole long list of it. No mention that that money was Federal money. That it was CDBG or Section 108, any of that. And then at one point in time, when Los Angeles had not spent its money in a timely fashion, $25,000 checks kind of showed up. Okay.

They were pulled out the back of somebodies pocket and they just started passing them out, and that was CDBG money. So I guess I'm saying this because you kind of mention, you know, it used to be politicize and it's really not so political, and these decisions are made because we have this one reform outreach and response to requests for proposal and on and on and on.

I'm concerned about all of that, and I'm trying to work with this committee and my delegation to figure out how we straighten all that out. I have a great respect for what was described earlier today about the flexibility that you have in City government to be able to target and identify, set some priorities about what needs to be funded, and I'd like to see that.

But you know, because I know the community so well and know who's connected, I know who gets funded. I know how it works. This is what I spend my life doing. I know this stuff. Then I figure I got to help straighten this out. So having said that, and I'd asked Mr. Graves this question before, and Mr. Graves, when we talked, kind of gave me a little bit of idea about how you—I asked where is the discretion?

After all is said and done and you got the CUP and you got the neighborhood councils and all of is that, where is the discretion, and how do we get to write $25,000 checks and pass them out? Where does that come from?

Mr. GARCETTI. Well, I think—you ready for me to respond?

Ms. WATERS. Yeah.

Mr. GARCETTI. Okay. I think you hit the nail on the head, and I 100 percent agree. I think that passing out on the last round $25,000 checks was the gasping cough of a dying system. Because that was that one time in which there was that surplus, and as Chair, I mean, you can appreciate this when a colleague comes to you and says, "Help me out, I got this project. I have this, I have that." There really is not much to go around anymore.

So we are looking at community base in terms of discretionary money. There really, we have a list probably five times as long as the money that our members request and that wasn't the case in the past. When Mike Menendez, my predecessor, was there, he was sharing stories with me that he had absolute responsibility and somebody come to me, "Oh, okay. This isn't spending out. Let's move that. We funded that for five years, and we should have funded it for one," and we don't have that. I mean, my position's a lot less powerful, but I'm glad because that means that some of that is being devolved. And I didn't mean to paint too rosy a picture that we're there yet. I guess it's about the intent that it's really permeating the system right now. For me, that's different. It was because we had the crisis of spending down from that 20.5 to the legal limit there was a bunch of checks that just went out the door. And I for one, want to praise the Federal government—I always publicly thank the Federal government and let my constituents know this is Federal money. When I say that we have a hundred million dollar housing trust fund, most of that is our money going out where our money is about $5 million of that is from CDBG money, so we're always trying to leverage that, and I think it is critical for that to be closed. Now——

Ms. WATERS. Well, go ahead.

Mr. GARCETTI. The flip side, though, and I respect very much what Mr. Sausedo was saying and I was one of those council members who sat down immediately and did get briefed on the bank, but I understand the lack of interest. It's something that I've tried to get my colleagues to show some interest in, too, and it's been a mixture of, "Oh, I don't want to be touched by that.".

Because of that perception, sometimes it's unfair to talk about the bank, but nobody wanted to engage in the political will on this when they saw that it's already out the door. But that said, if we just did a system where it only went to the community which I, too, philosophically favor, we get that oversight problem.

We have to figure out a thing where if the CDD has failed in the past and certainly I think there's blame with the department as well as with the bank, we have to shoulder that as well. So just to say that I'd be worried CDD take this money and run with it, we have to have a CDD that can take that money and run with it.

We have no choice in our system but to have a system that works, so the internal reforms that Mr. Sausedo was talking about is something that we're working on just as much from the inside to make sure that happens, but I was not mincing words when I said the leadership term and that attitude is permeating places immeasurably different.

And I think it's got community members that would begin to wash out toward the community tried to do but we only have gone through one round since those changes have been made.

Ms. WATERS. Okay. And I'd just like to mention, too, while my mind was on the description of this money or lack of description of where this money comes from. We are pleased about the teams that are put together to do some of this development, whether it is a big private developer and a community group or organization, et cetera, et cetera.

I've seen some of the private developers who wouldn't walk foot into the community without all this gap financing, who go around touting what they have done for the community, and they don't seem to know where the money comes from. When in fact, those developments would never take place without Section 108 and certain gap financing. So I'm looking at that also in terms of developers because in the final analysis, if we know these are business deals, but we don't mind people making money, but I don't want to see some of the well-healed developers who make these—put together these teams walk away beating their chest about what they did for the community without recognizing that this was a team effort with the Federal and the local government playing an important role. So we're going to be looking at how we can bring some reality to some of this. We're not out to change the mission of—of CDBG, but I think we do have to have some new definitions and I just——

Mr. GARCETTI. Absolutely. In fact, if I could make one suggestion. It's not about the name Maxine Waters' name out there or whoever's name not on there. But I think whenever we have those projects and we have those signs that are out there so people know where their tax dollars are going, whether it's Federal or whatever. I will make an instruction of the community redevelopment, that they make sure that Federal moniker's on there, too, because this is made possible by Federal Section 108, that this is the rep for the area, that these are people who are fighting on the floor because I think that is critical for that credit to be out there, too.

Ms. WATERS. Yes, I think that, too. I've never seen that on a site. That's interesting.

Mr. GARCETTI. You had my word that I will make that direction to the department and try to see if my colleagues will come on board with that, too.

Ms. WATERS. We'll have some directions for you also.

Mr. GARCETTI. Good. Thank you.

Ms. WATERS. Thank you. I thank you for volunteering that.

Mr. Graves, why should we support the idea that CDD should have this $196 million, be it in a $50 million allocation or further and whatever, and why shouldn't we insist that the money go into the areas that were intended in the supplemental zone; and could this not be better done by one of these CDFI organizations or take, for example, some of our local banks that are really Community Development Banks? I see small banks, we have them all over. That's what they do. They're in the business to lend money. Now, I know that you said that this Community Development Bank ended up being the bank of last resort. And they had to take businesses to lend money to that the banks and turned down. Now in my mind, that's not so bad. Let me tell you why.

The banks haven't had a clue for what to do with minority businesses, start-up businesses and never supplied any real substantial capital. This has been a struggle that I've been in for years. So they've turned out a whole lot of people who, in fact, should be given loans and who can pay those loans back. So I'm not disturbed by being the bank of last resort.

When I was in the State of California and we had our small business development operation that the banks did guarantee those

loans, that was the same kind of idea, too, that we were kind off of the bank of last resort. And that bank discovered ways by which to evaluate the applicants in ways that traditional banks don't always do.

First of all, looking for the ability to repay. But also, doing some of the kinds of things that have never been done particularly for poor communities and minority communities before. We have people who have—could go out and get signed contracts for goods or services that they could negotiate at any traditional bank, but it's done in nonpoor or nonminority communities where, you know, you've got a whole list of people who say, "You make this product. I will buy. This is what I need. I'll sign the contract." Business does not have money to get the inventory. Can't get it from a traditional bank, but I would expect a Community Development Bank to be able to look at that just a little bit differently, look at the history of the person, look at the entrepreneurial spirit of the person, look to see, "Well, maybe they have a little something in collateral someplace where they could help out with this," put together a package where maybe they could get the family or somebody else involved in what would be some kind of good faith money to show that, you know, you're really struggling for this startup capital and then make it work.

Now—so I—I'm not again shocked that traditional banks turn people down, and you become the bank of last resort. But what makes a civil servant or a political appointee a better judge than some of the Community Development Banks? We're funding through the community development financial institutions, some banks that are identified as community to do this very work.

Why can't we go over there and look at what is it, One United or whatever that bank is, that consolidated with family and founders and all of that, these aggressive, young community-minded spirited people. Why can't we put that money into those banks and let them do this work and just wipe your hands of that? Get rid—you don't need that. Why do you want that?

Mr. GRAVES. Well, now you made me stop and think about it. Actually, at one level, there is no reason not to consider that. When I was in San Francisco, the redevelopment agency, we worked with a couple of banks to use tax increment funds as loan loss reserve in exchange for their commitment to make loans in our targeted areas.

There are a lot of ways you can use a bank and not spend a lot of money, by assuming some of the risk that they otherwise wouldn't take. It's not that what CDD would be doing is that much different than what we're doing already.

As I pointed out, CDD operates the 108 loan program outside the bank now, and I think that our folks have a pretty good track record in terms of the creativity of using our funds to fill in those gaps that you're referring to. At this point, I'm not ruling out any alternative for the use of those funds. I do know that the initial 50 million is a relatively small amount compared to what we're already doing with the same 108 funds.

With regard to the larger amount, then we probably would need to bring in some different kinds of partners, but I would very definitely prefer to go with an existing lending institution and give

them some incentive to take a second look at some of the applicants that——

Ms. WATERS. Would you take a very close look at that.

Mr. GRAVES. Sure.

Ms. WATERS. Because I think that that's something that ought to be considered. While I have both of you.

Mr. Garcetti and Mr. Graves, there's a pile of money in CDBG that's being used for certain kind of City infrastructure services that I wonder about—code enforcement, why are we using CDBG to do code enforced?

Mr. GARCETTI. This is for housing, substandard housing for people—kids who have lead paint poisoning. We're using it to make sure that people aren't living—I think it's 15 percent of all of our housing stock qualifies as slum housing, and it's to make sure that we can supplement and everything is in a three-year cycle so that every piece of housing in this city was getting inspected just once every three years.

Ms. WATERS. Don't we have some special funding for—Somewhere?

Mr. GARCETTI. We have some from the State that we've gotten. It wasn't—we found that it is insufficient.

Ms. WATERS. Okay.

Mr. GARCETTI. So we wanted to make sure—we had kids, you know, even as a candidate, I remember going to a couple buildings. You could see the kids with gray faces, stunted growth and with that, it wasn't nearly enough when you look at 15 percent of the City of Los Angeles.

Ms. WATERS. I see.

Mr. GARCETTI. They had not begun to even look at that, so that was the code enforcement. Also, City infrastructure we supplement other areas, sidewalk repair and other things and census tracks, poverty census tracks, districts like yours and mine.

Ms. WATERS. Why don't we pay for that with regular City money—sidewalk repair?

Mr. GARCETTI. We do as well. Say that's split up by 15 districts equally, more or less, then those districts that have greater need are supplemented even more with CDBG so that those districts that are represented are getting more than, say an area where there's not poverty, although we do that as a City anyway, too, that supplements that further.

Ms. WATERS. I have some questions about that. I'll continue to think about that.

Mr. GARCETTI. That was cut by half the——

Ms. WATERS. You did reduce there.

Mr. GARCETTI. Yeah.

Ms. WATERS. Because while you're asking for social service money, it is identified that this is high priority, don't tell me you spend it on sidewalks.

Mr. GARCETTI. Right. Well——

Ms. WATERS. Because I expect the City, I expect the City, one of the basic responsibilities of the City is to trim trees and clean alleys and to fix sidewalks.

Mr. GARCETTI. Sidewalks are not a legal responsibility of the city, so the City wasn't doing them at all up to about 15 years—10 years, at all.

Ms. WATERS. Is that right?

Mr. GARCETTI. At all.

Ms. WATERS. And for the homeowner?

Mr. GARCETTI. And for the homeowner. We're looking at systems where maybe we share that cost again. We'll go back, I know we're not testifying about sidewalks today. But it's interesting that we never had done that at all. And it was precisely because some of those areas that we're trying to deal with blight, so how can we bring economic development if we have the older blocks, the older sidewalks, older part of it?

Ms. WATERS. Where'd you get the hundred million dollars done from the housing trust funds?

Mr. GARCETTI. Mostly a combination of sources. Community redevelopment agency tax increment money, from our general fund which was pretty dramatic considering the last two years has been our worst budget years in a decade. We have monies to be gotten from tax reform, there are tax slough laws that weren't paying any City business tax and so additional monies from that, were dedicated for housing trust funds, and some monies from surplus property sales that the City owned.

Ms. WATERS. But none of the CDBG——

Mr. GARCETTI. On top of the balance of $5 million——

Ms. WATERS. Five?

Mr. GARCETTI. Yeah, about 5 million.

Ms. WATERS. 5 million in CDBG——

Mr. GARCETTI. With the exception of the housing trust fund.

Ms. WATERS. A hundred million is a nice amount to package. If you can package 95 million, you can package $100 million and leave that 5 million in CDBG alone.

Mr. GARCETTI. Well, here's where it came from. Under our previous mayor, about—I don't know, a lot of the money consolidated families for monies used to go to housing was moved away in housing. And so this was found as a commitment because housing had basically been not a priority under the previous administration. So this was a way, whether or not it was through the housing trust fund or whether it was just direct dollars into housing subsidies, we thought it was to rewrite that wrong.

Ms. WATERS. Oh, don't worry about that.

We need that 5 million in CDBG for these nonprofit organizations that you want us to continue to support the waiver on, and I can understand what you're saying.

Mr. GARCETTI. That wasn't coming from that waiver piece, though. Yeah, that was coming from——

Ms. WATERS. I know, from the regular CDBG.

Mr. GARCETTI. Okay.

Ms. WATERS. Yeah, I'd like to encourage you to not to use that as a symptom. Give the people the money because—like I said, if you can package, 95—if you can package, you know, a hundred, we need that so, so, very badly.

Mr. GARCETTI. I'm sorry. I would be corrected. Of the original plan by the mayor was 5 million, but it's only 500,000.

Ms. WATERS. We can take that back, too. Okay.

Now, before I get to Mr. Sausedo, Mr. Graves, this proposed arrangement for the joint venture company, to divest the City this portfolio and move its management fee over to the new entity that may buy, it sounds to me as if the management company would continue to be able to manage the portfolio, they would just change hats and who's paying for it.

But that's not a high priority of ours to make sure that the management company stays in business. Your priority is to see what you have in this portfolio and how you can get back the most money that you can get back from this portfolio.

Now, some of the businesses are performing; some are not performing. I don't know what the total assessment is, but could you look at that very carefully and decide whether or not the way that it's been described to us is the way you really want to go with that, and whether or not—you don't have anymore—you don't have any management by anymore organizations as FAME or any other of the organizations still managing those loans that they made?

Mr. SAUSEDO. No, FAME actually—there was a breakdown—there was a $5 million allocation for FAME to do similar type work in venture capital. There were no deals brought to the table, and so we subsequently——

Ms. WATERS. Took that 5 million back?

Mr. SAUSEDO. Right.

Ms. WATERS. And you had one other entity——

Mr. SAUSEDO. Which what associated with FAME which was Hancock Partners.

Ms. WATERS. Hancock Partners.

Mr. SAUSEDO. Right.

Ms. WATERS. So all that 5 million is back into the bank.

Mr. SAUSEDO. Right.

Ms. WATERS. So all that you have now is this portfolio that's managed by, what is it, Zone——

Mr. SAUSEDO. Zone Ventures.

Ms. WATERS.——Zone Ventures that you have to be concerned about.

Mr. SAUSEDO. Yes, and the short of it is—let me give you a little background.

Ms. WATERS. Yes.

Mr. SAUSEDO. Because it's important to note history.

Ms. WATERS. Yes.

Mr. SAUSEDO. In the fall of 2000, the wonderful "L.A. Times" reporter—and I do say that sarcastically—wrote an article about the Zone Ventures portfolio—why is the City involved in venture capital? It's sent a flurry in City hall of some council people, not all, but some influential council folks, I should say at the time, to include staff and the net result of that was, "You guys need to get out of this, and you need to do it now.".

Well, the Board of Directors took the position that, "We were brought here to make prudent financial decisions. If we walk away from the portfolio, we have a contractual obligation to pay all venture fee, et cetera, et cetera, you will lose any potential up side. We will not make a poor financial decision.".

So after some creative thinking, we said, "How can we make a good financial decision and political decision which sometimes, more often than not, is an oxymoron and do that in a way that the City can win and get them most or best paid back, if you would, from that.".

So we came up with a strategy as a board to identify a third-party entity that would take on our responsibilities, and part of that $35 million commitment is about $5 million in fees over the next several years due to the general partner, Zone Ventures.

So one of the things we need to do is relieve ourselves from that responsibility. During that time we had about 1.5 million in follow-on investment, meaning if there's a capital call, we have to participate in order not to be what's called "deluded" or lose some of our investors. One of the things that we did, we engaged a technology firm to come in and not do a financial audit of the company, but to come in say, "Look, of what we have, are these companies that are worth continuing to invest in, are we getting our money's worth in Zone Ventures."

Okay. So that if we're not, let me take a different tack. At the end of that study, we found that we some funds in the group. We also discovered that for them to—one of the main companies, for them to go public, they're probably going to need about $15 to $20 million in a capital call in the future, and as whether some of the other companies. The next question is: Will we be in a position to do that and as——

Chairman NEY. Can you—I'm sorry, hold your thought for a second because we're running out of paper, I'm told. So just hold that thought about the next question.

Mr. SAUSEDO. Fair enough.

[recess.]

Mr. SAUSEDO. The next question was: Will we have the financial resources to participate in this long term? The answer's no. And you know, it's the will of the City in a position to do so? How will they do so? They're going to pull money from the general fund, et cetera. With the caveat over our head, get out of this deal.

We then ask ourselves to go out and identify on a performance-based agreement some investors that would be willing to take over the investment from us and then take over our capital commitment, and as part of that, they would be taking on future rounds, taking on future rounds of investment and the remaining fee arrangement.

We did talk to a number of other people that potentially, and no one wanted to touch it at the time. And now that we've been in negotiations with—actually, there were two investors at this time: One was MR Bill which was one of the largest bond companies in the City at the time and a local developer Bedford Group who was interested in taking on and stayed in the process.

MR Bill unfortunately lost their taste to stay in the bill because it was being too bureaucratic so what I thought would be a very simple process. So—so we think that the board had voted on moving forward on this, because we don't feel that we have the venue capital to stay in the game, if you would, if the City makes a decision to stay in the game and they have some other financial resource to do so, then that's a good call, because I do believe that

some of the companies in the portfolio are good, but when you're looking at issues like police and fire being challenged by the shortfalls in the budget kind of a difficult call to make.

So that's why—that's the history behind us looking at selling off or—or divesting, if you would, the portfolio while having some upside in the future should a future event occur mark the conditions allowed more.

Ms. WATERS. Well, I think that—that certainly should be revisited. For a number of reasons. It seems to me—and I don't know if you've done an assessment of that portfolio—there is some document that talks about each of those companies, the assets, everything, the management, everything, because it seems to me that venture capitalists are not magicians anymore than anybody else who manage monies or companies.

You make sound decisions based on the information and the facts, and you can determine which companies are going to hold and which ones are going to fold. And it seems to me that rather than a management company, you know, managing that portfolio, that if it's all going to be drawn back in to someplace, that all be vested in that someplace to make some decisions about rather than keeping the management company involved at this point.

Mr. SAUSEDO. Unfortunately, we don't have—I concur with you 100 percent. We don't have the luxury of making that decision because there's a contractual obligation.

Ms. WATERS. I see. How long does the contract run?

Mr. VALENZUELA. July of '08.

Ms. WATERS. July of what?

Mr. VALENZUELA. July of 2008.

Ms. WATERS. Who made that deal?

Mr. VALENZUELA. It's fairly standard. I mean, limited partners——

Ms. WATERS. Really?

Mr. VALENZUELA. I mean, limited partners generally have a ten-year life span, and in many cases additional options to extend at the option of the general partner with the consent limited partners. In this particular case, I just want to add to the complexity of the matter: Los Angeles Community Bank is the sole limited partner.

So we're the 99 percent financial interest of the limited partner with Zone Ventures having the 1 percent stake which is fairly common. But we are not in many cases the investments that we have through Zone Ventures and the portfolio companies, there are numerous other investors and so our ability to—well, first of all, we have limited, if any, ability to control the investments were limited, and—and so we take recommendations from the general partner, we review them, we—we try to evaluate, make determinations as to whether the investments will meet national objectives and other criteria that we're subject to, and the portfolio has grown and matured and it's gone through its "I" curve and "S" curve and beyond.

We've seen material deterioration and the value of the portfolio very similar to what's occurred in other portfolios with similar or like kind investments. And so the decision process and the bank and the one that we've been communicating and sitting on, how do we preserve, maximize the recovery from this as opposed to walking away and taking a deep loss and worse yet, we think that the

proposal that has been approved by the board and approved by the city and is now being discussed with HUD to get their thoughts on it, is the best available to us at the present time.

We're not sure—and I think, I'm not sure if they're prepared to comment, but I know the City hired a consultant to do kind of an evaluation or short valuation of the portfolio to evaluate the terms and come up with some additional comfort, but we believe that is on behalf of the bank and for the businesses, this is the best possible proposal of this portfolio that's been put forth that we've seen that preserves the opportunity to participate in the upside, and we do believe that there will be an upside for at least one or two of the other——

Ms. WATERS. Well, I forgot about the complication of other investors. I was not taking that into consideration when this was described. That complicates the matter somewhat. Let me move on to Mr. Carlos Jackson.

Mr. Jackson, we know about the RFP process and the City of L.A. And we know about the hearings, and we've heard the CUP described and the neighborhood council is placed on role and all of that. And whether or not that is fully operational or realized, it is a kind of an oversight and involvement that certainly everybody supports it should be done. It should be worked at so that—in fact, it is real. Now, at the County, you don't have an RFP process?

Mr. JACKSON. For public services? We talking about public services?

Ms. WATERS. Well, you tell me.

Mr. JACKSON. In the area of housing, we do have RFPs. In the area of economic development and limited to what we have in the two Supervisorial districts is working in targeted communities, and basically it's a commercial business revitalization or business loans and solid improvements so really owner driven in that sense. In terms of our housing rehab program and income driven which is equitable driven, we can come forward.

Ms. WATERS. Let's back up so you and I can talk about the same thing. You get $38 million in CDBG money. How do you disburse it? How did you dispense it?

Mr. JACKSON. Being in L.A. County for 48 cities involved, and since 1975, the board has adopted a policy for distribution which is using the same formula that HUD uses for the entire jurisdiction, population of current housing and people in poverty. We run the numbers for the 48 cities, so it's very objective in terms——

Ms. WATERS. Okay.

Mr. JACKSON. The cities are responsible for developing their program according to the guidelines and requirements of CDBG. And they will do a variety of things. For the unincorporated areas, I work with each of the Supervisors, there's five of them, and predominantly, that money goes into housing.

Ms. WATERS. Wait just a minute. I'm talking about a process right now.

Mr. JACKSON. That's——

Ms. WATERS. You have a pot of money. Do you just divide it up between the five Supervisors?

Mr. JACKSON. No, it's done again by formula. Same formula we use with the cities, we use for the Supervisorial districts. So——

Ms. WATERS. How do you do that?

Mr. JACKSON. Using the three factors again: Housing, population and poverty. We have the census information for the unincorporated areas, and that yields a certain number for each Supervisor. One Supervisor whose district's predominantly in the City of Los Angeles may get 150,000. To Supervisor Burke and to Supervisor Molina, we get the bulk, they have the highest level of poverty or low income housing. And then, we—for the cities, they do it, you know, according to their particular needs.

Ms. WATERS. Okay. So you've got this formula that's synonymous with the formula that you use to disburse the money to the cities which is the same formula we kind of use in the Fed that divert to the States. We know that. So now you use your formula and we each have this pile of money. How do we spend it?

Mr. JACKSON. Each of the—I″m going to focus on the unincorporated areas because, again, for the 48 cities, if I can, as an example mention South El Monte, that City of South El Monte would get a——

Ms. WATERS. Just because his relatives are in South El Monte.

Mr. JACKSON. I doubt it. But they've been in a program the entire time. South El Monte would get an allocation stating $200,000.

Ms. WATERS. Okay.

Mr. JACKSON. They will work with their council and the staff and the community there as to what is pertinent and important to them. We do not interfere with their programs select in the sense. We allow them to develop their programs, provided it meets all the requirements.

For the unincorporated areas, it's different. Each of the districts, we work with the Supervisor and the staff and our—and we also conduct community meetings. Like I mentioned earlier, we have 16 communities that we go around and listen to the communities. Unfortunately, when you look at the numbers allocated, we get $30 million, it sounds like a lot. But for the unincorporated areas, it's only $16 million.

Ms. WATERS. That's not a lot of money. That's very little money.

Mr. JACKSON. That's the reason for——

Ms. WATERS. But they do just kind of give it to whoever they want to.

Mr. JACKSON. Not—on the public service side. But not on the—not on the other targeted for a particular program. And it's really like, say, for instance, in one district we'd have certain streets that are earmarked for community—commercial business revitalization. It's really the participant's willingness to participate in that program, a business. If they wanted to do it for sign improvement. For housing rehab, it's the same story. We will publicize and market the program, but it's a voluntary program. We can't force anybody to take out a loan or to accept it. In some cases, unfortunately, we have gone and walked the neighborhood and offered a grant. People still fear Government, fear the paperwork.

Ms. WATERS. So let's get back to process. For your unincorporated areas, you have 48 cities. In that, you have the City of Hawthorne? You have Hawthorne?

Mr. JACKSON. It's an entirely different jurisdiction.

Ms. WATERS. Give me—Lawndale?

Mr. JACKSON. Lawndale is a participating City in our program.

Ms. WATERS. They get a set amount of money based on this formula, and they do what they want to do with it, but they have some process, some process, but they spend that money.

Mr. JACKSON. Right.

Ms. WATERS. You have the unincorporated areas, and in your unincorporated areas, you have should have some targets that you'd like to see the money spent on. The money is basically divided up between the Supervisors.

Mr. JACKSON. By formula.

Ms. WATERS. By something, formula. For the unincorporated——

Mr. JACKSON. Same formula we use for the cities, everything's above board on that.

Ms. WATERS. And people apply for the money. People ask for the money. You have community booster organizations who would like to see—see some funding and maybe small amounts of money because you don't have that much. And so you look at it and say, even eeni-meeni-mini-mo, or I know this person. This is a good program, something. You do something like that.

Mr. JACKSON. In one program home, which you know we can buy with our block grant.

Ms. WATERS. Right.

Mr. JACKSON. Home is an open RFP.

Ms. WATERS. Oh, okay. But that's not the money that was included in 38 million.

Mr. JACKSON. No, just——

Ms. WATERS. I want to talk about 38 million.

Mr. JACKSON. Under the public services category.

Ms. WATERS. Uh-huh.

Mr. JACKSON. Under the RFP program, it might be money targeted for the redevelopment area, small redevelopment area, Willowbrook, say, for instance, and we have certain things we're going to do there. But the area that we're—I think we're talking about the public service category, this is the—the dollars that Supervisors as well as the County we look at in terms for social services.

Ms. WATERS. Look, I'm not——

Mr. JACKSON. No.

Ms. WATERS.——saying you shouldn't do it. But I don't want you to labor at this too hard. There is no RFP process for those dollars.

Mr. JACKSON. I didn't say there was an RFP.

Ms. WATERS. I know. I know. You have a hard time getting me. I'm not beating you up about it. I just—I have to understand it before I have to start talking about making law to try and deal with this. They have the flexibility to fund programs that they'd like.

Mr. JACKSON. That's right.

Ms. WATERS. That's right. That's okay. Now, you mentioned something that I did not know about—the monies that you get from something to do with the city of Industry. What is that?

Mr. JACKSON. Back in early 1990, '91, the City of Industry had specialization set aside at the state level. For City of Industry, they're set aside money for a tax increment for the redevelopment areas, 20 percent set aside. They claimed and the legislature ap-

proved it that there was no need for housing within the City of Industry, and it reverted to the L.A. County Housing Authority.

Ms. WATERS. Great.

Mr. JACKSON. Our agreement with the city of Industry was that we would do it by housing program, without any input from the—in terms of decision making, and so since then, since 1997 because there was a lot of litigation on that particular matter, we've been using the money to elaborate for homeownership, senior housing, special needs housing, and a few other ones, you know.

Ms. WATERS. That's good. Now I know there was something about the City of Industry, and I remember some years ago when we found that there were elected officials who lived every place but the City of Industry who didn't have to worry about it because it was all commercial and industrial. That's okay. I'm glad that the county is the beneficiary of that. That's fine. But now let me ask you the same question I asked the City when I kind of talked to them about not using—maybe they should be using money for a certain kind of infrastructure, that maybe the money should be used for social service programs, et cetera. What—how much of that 38 million are you using for something like that, some kind of infrastructure, are you repairing rec and parks—park and rec, facilities with CDBG money?

Mr. JACKSON. We do limited park improvements.

Ms. WATERS. Why are you using CDBG money to do that?

Mr. JACKSON. Well, the County itself has the park improvements.

Ms. WATERS. Why don't you use some of that City of Industry money?

Mr. JACKSON. It's strictly for housing.

Ms. WATERS. It was strictly for housing based on the legislature?

Mr. JACKSON. Yeah.

Ms. WATERS. The legis—Sacramento?

Mr. JACKSON. No. In the redevelopment area, 20 percent of the tax increment monies that are collected is set aside for housing by law in any development area. That 20 percent is transferred over to and—us, and we have to use that more housing and no other purpose.

Ms. WATERS. The tax increment cannot be used for any other purpose, even though when you're developing housing and considering the neighborhood or the environment which should include recreation, parks, all of that, you can't use any of that money for that?

Mr. JACKSON. We do not receive the balance of the dollars that they—you know, the 80 percent—we're not using that. They keep that money. We're only receiving the 20 percent of the housing set aside. We're not receiving any other portion. That money's restricted to housing only.

Ms. WATERS. And so tell me again, how much was your last—I mean, give me some idea of how much money that is, that the City of Industry tax increment?

Mr. JACKSON. On an annual basis in July, we get maybe $11, $12 million.

Ms. WATERS. You say housing——

Mr. JACKSON. Strictly housing.

Ms. WATERS. So what do you do with it? I mean, how do you spend it on housing?

Mr. JACKSON. The board of Supervisors adopted an allocation plans, and 50 percent went for affordable housing which is home ownership, multi-family housing and senior housing, three categories.

Ms. WATERS. That's to the developer.

Mr. JACKSON. It could be to nonprofit.

Ms. WATERS. Computer down payments.

Mr. JACKSON. Not that money. There's another half—the other half is special needs housing. It's housing, and it cannot be emergency housing. It has to be transitional.

Ms. WATERS. So how do you use 50 percent of that 11 million. Give me some idea of how you use that for multi-family, for example.

Mr. JACKSON. We have—we allocate money for helping them on acquisition, of property——

Ms. WATERS. Developers.

Mr. JACKSON. Right.

Ms. WATERS. You give it to developers to do acquisition and land packaging in order to build multi-family housing.

Mr. JACKSON. It's not just—well, again——

Ms. WATERS. Profit on nonprofit.

Mr. JACKSON. And that is strictly on an RFF process.

Ms. WATERS. Okay. On an RFP process. Right, okay. And the other 50 percent, you do on special needs?

Mr. JACKSON. Special needs housing.

Ms. WATERS. Okay. You use any of this for homeless?

Mr. JACKSON. If it's transitional housing. By law, we cannot do emergency housing under the redevelopment law.

Ms. WATERS. Okay. All right.

Mr. JACKSON. So we do—again, we do domestic violence. A lot of our focus is emancipated youth that come out of foster care at 18.

Ms. WATERS. You have a lot of focus on emancipated youth? What are you doing for them?

Mr. JACKSON. This. We will develop transitional housing.

Ms. WATERS. Where is it?

Mr. JACKSON. Disbursed throughout the County.

Ms. WATERS. We can't find any homes for people coming out of foster care.

Mr. JACKSON. You have to be 21, and the need is tremendous.

Ms. WATERS. Okay. Thank you.

Mr. Chairman, you were very generous.

Mr. GARCETTI. Just because of your line of questioning, I want wanted to give one—and I'll try to make a succinct argument for some of the more infrastructure-based things.

Ms. WATERS. Okay.

Mr. GARCETTI. I think all of us want to grant money to provide people with self-sufficiency——

Ms. WATERS. Yes.

Mr. GARCETTI.——and communities with self-sufficiency.

Ms. WATERS. Yes.

Mr. GARCETTI. It's really a lather. So when I think about where we spend the money as the City, first you have to have a safe community.

Ms. WATERS. That's right.

Mr. GARCETTI. I represent an area, which in a 2-month period, 13 young people, 5 were taking drugs, in a similar district.

Ms. WATERS. Sure.

Mr. GARCETTI. We were able to take some block rent money and bring gang intervention folks, chased away at gunpoint. Within two months, they had 70 percent of the gang members positively enrolled in becoming forest fighters, just one example. The second step on the ladder is the infrastructure buildings so the community has some capacity.

In Echo Park where I live, where there was gunshots just this weekend, we had an improvement project which had to do with sidewalks and trash cans and actually the facade of our businesses, things which gave the community pride, things like the City should be doing, but the City cannot similar afford to use those Federal dollars to get to the third step which is the delivering of services, the economic development projects, the community pool project.

Ms. WATERS. Can you use Section 108 for infrastructure repair?

Mr. GARCETTI. I don't know.

Ms. WATERS. Who mentioned that? Who mentioned the City of Santa Fe to you?

Mr. JACKSON. I did.

Ms. WATERS. Did you tell any——

Mr. JACKSON. No. That was economic development project where——

Ms. WATERS. Where you had to do some cleanup where——

Mr. JACKSON. Major cleanup.

Mr. GARCETTI. And if you get all those pieces in place, then you have Federal money with which you will be able to provide self-sufficiency to some parts of communities and actually get the rest going and get the community going.

Ms. WATERS. Okay.

Mr. GARCETTI. But I think that's the last round of actually being able to deliver services.

Ms. WATERS. It may be, and it's not a lot of money, and I——

Mr. GARCETTI. I hear you.

Ms. WATERS. The City of responsibility.

Mr. GARCETTI. Absolutely.

Ms. WATERS. Now, having said all of that and—I'm finished Mr. Chairman.

As we look at the possibility of the management of the bank by a financial institution, CDFI institution on bank or something, we would really like to keep in contact with you as you think this through.

Mr. GARCETTI. Absolutely.

Ms. WATERS. We think that's very important. The other thing I'd like to impress upon you is this: You talk about infrastructure, the sidewalks, the trees, the alleys, the poverty, the unemployment, buildings that are still boarded up, since the insurrection, I am going to have to really, really, really work—look very closely at what you talk about doing with that money, that 50 million and

the 146 million because we know politically it's very hard oftentimes to direct the money where it should go because everybody wants a piece.

You know, it's just a political reality, but we have to resist that. We can't continue to look at the epicenter of the problem and divert the resources that were intended for that epicenter away from there. I think that most of us have been very, very generous in our lack of criticism about this Condit thing, but we're in a deficit situation in the Federal government, the state's in a deficit situation.

So this is precious money. I mean, this is precious money. And I would like very much to see it go where it was intended, and so I'll stay on top of that; and.

Mr. Sausedo, where I don't agree with everything, I think you've made some very valid points about the bank, and if you're not to do it, what you think ought to be done in some of the statistics that you have cited have been riveting and forces us to have to focus on what happened with this very precious money that's before us.

Thank you very much.

Chairman NEY. Thank you. I would also note to the witness's first and second and also in vase of the third panel, some members of the subcommittee may have some questions that they would like to ask, keep the hearing open for 30 days so their questions may be asked in writing potentially.

Thank you for a very interesting panel.

We'll take a five-minute recess.

[recess.]

Chairman NEY. We'll begin your testimony.

STATEMENT OF LORI GAY, LOS ANGELES NEIGHBORHOOD HOUSING SERVICE

Ms. GAY. Thank you. Good afternoon, subcommittee, ranking Member Ney and ranking Member Waters. It's a pleasure to be here. Welcome to Los Angeles.

Just a quick word about NHS, and since this is a field hearing, we'll focus our comments on what CDBG's been helping us do here in Los Angeles. LANHS is 18 years old. We've served over 1.8 million people. We are a CDFI as well, and last year generated $72 million of business assisting families to improve their homes and obtain their homes.

We provide financial literacy, education, affordable loans, construction management services and neighborhood revitalization programs. We are members of the national NeighborWorks Network, and we spoke to this committee in April on the down payment assistance fund, so I won't reiterate all the information that I have.

Chairman NEY. Just a note, I was so impressed I stopped you, and I said I wanted to visit——

Ms. GAY. You did.

Chairman NEY.——you.

Ms. GAY. You did, and we welcome you to do that at any point. We are interested in leveraging. That's the business we're in, so the other panels that spoke before us, one of the things I thought was interesting was the capacity for leverage. We're at a 35 to 1

leverage now in the housing business we're in, and I think that the small business sector has a very difficult challenge.

It will be interesting to see if they can leverage the funds that you so adequately place with them, and I thought it particular intriguing, the idea that we're suggesting for the Community Development Bank resource is what I would certainly offer is the notion, that's not our business.

We don't do small business development detail or investment peaks. But a group like LALDC, Little Tokyo Service Center here was earlier this morning. These are entities that are CDF investments. They along with banks put money on the street aggressively, and so just the notion of being able to perhaps share some of that 196 million, spread it around, I think, would particularly behoove a lot of the communities that were formerly served by the bank.

The other thing I'd note just on CDBG, some of the communities we've referred to throughout L.A. County and low income census tracts lack economic resources, lack neighborhood facilities, lack basic affordable housing so we've spent the bulk of our time working with the municipalities and now, seeing ourselves as one of the largest home ownership providers in the region putting 42 families a day onto home ownership paths, we see now the importance of being able to utilize flexible CDBG dollars, not only to assist families to get ownership, that's just one piece in your district. Congresswoman, just as a sample, HUD ran studies several years ago which I was certainly happy to provide to your staff involving a third-party predatory lending detail going on in your district and Congresswoman Diane Watson's district as well, and one of the interesting statistics I recall was that moderate income blacks borrowed at nine times the rate of low-income whites from subprime lenders.

Hispanics were borrowing from FHA at 20 times the rate of whites. 14 times the rate of whites for blacks from FHA, and just the notion of affordable money being available in our communities, it's a huge lack, it looks black, brown, Asian, rural, poor whites in many instances—and I raised this because I didn't quite hear it today yet on the other panels—that the families who are underserved look like some of all us. You mention the fire truck.

I'm interested in the very simple stories. You mentioned $500,000. Some might ask: Why are we talking at these levels, but for practitioners like us, I'm interested in every single dime getting to every single family that needs help. In certain instances, it eliminates the opportunity for families to participate so that's why I mentioned the bank's resource allocation for the future would be very intriguing to privatize it, let CDD have some oversight, but whatever's appropriate, but see how the people on the street can get the money out.

That would be a real notion that we've seen work in housing. The other thing I'd mention with CDBG, in particular, we were given—I'm from the old school—a lump sum draw down grant to get or revolving loan fund started 18 years ago, and when I came to the NHS it hadn't leveraged very well; and so as we got a little more sophisticated, what we found was that, our revolving loan fund that's now made up of mostly private dollars, could be utilized to

leverage Freddie Mac and Fannie Mae-type programs, leverage individual down payments and/or closing cost assistance.

And what we see is in using a system to get that money on the street, we've been able to maximize as the City of L.A.'s primary contractor on their home maintenance program, neighborhood preservation program, we end up helping, you know, maybe it's only a hundred families a year, but those are people who are in danger of losing their home and are at risk of falling subject to predatory lenders and are living in homes that really are in disrepair.

So it's how do you utilize CDBG as maybe an initial source which the housing department, I believe, has tried to do well in this city over the years and then leverage that well past the original intent so that the government's money is not wasted? And that, in fact, more consumers are assisted because your money got it started perhaps.

Your initial investment of a thousand dollar grant into a fund like ours 18 years ago is now generating $72 million a year. I mean, that's the kind of story you want to be able to have with every single dollar that's spent on CDBG, I would think. Similarly, programs like Section 8 to home ownership, particularly interesting I think in Congress right now, we're watching it, we see those kinds of programs.

In L.A. There are probably only four or five homeowners among 9,200 right now who are able to receive that assistance and use their Section 8 voucher to make their mortgage payment, but the notion is: How do you make that 40 people? You know, how do you take many people off the voucher program and, in fact, assist them to grow their lives to a place where their capacity is beyond utilizing Section 8, and they're working contributing citizens who then give back by becoming homeowners on their own?

The final points I'll make, everything from code enforcement to nuisance abatement to graffiti removal to the city's handiworker program are all things we've seen in what we call full-cycle-type revitalization effort that are needed to make neighborhoods work. And what we keep finding is that if we limit our vision to thinking that our little home ownership stuff and our little home maintenance stuff is all that matters, we screw up, quite frankly, the capacity of families to make their lives better because as soon as you get them in the house, then you have to deal with an alley closure because there may be gang members driving behind the alley of the house they just bought, okay? Okay, to traffic their drugs.

There may be some nuisance abatement problem. There may be some sidewalk that is a hazard to their children in front of their homes. So it's how do you strike the balance? That's always the question. Groups like ours have been asked to help strike it clearly on the housing, affordable housing and the rental side, but I think we have a lot more work to do.

What we certainly want to encourage the subcommittee to consider, is that whether it's small business, economic development or affordable housing, commercial resources, we need all those pieces of the pie to be able to make the whole pie work.

And the real job of the nonprofit community in our meager opinion is to take one small percentage of a pie that makes up a community and then stretch that as far as possible so that everyone

gets to eat from the pie, and that's our job as your partner so we're committed to that.

If you end up having more specific questions on the types of programs that we've managed for the City of L.A. Because they do privatize through the housing department much more aggressive than they did even a decade ago, I'm happy to answer them. Just wanted to offer some of the solutions that we see.

Thank you for your time.

[The prepared statement of Lori Gay can be found on page 91 in the appendix.]

Chairman NEY. Mr. Mistrano.

STATEMENT OF SAM MISTRANO, ACTING EXECUTIVE DIRECTOR, SOUTHERN CALIFORNIA ASSOCIATION OF NONPROFIT HOUSING

Mr. MISTRANO. Ranking member Waters, Council. Thank you very much for having me.

My name is Sam Mistrano, the Executive Director of SCANH, which is the worst acronym, which stands for Southern California Association of Nonprofit Housing, and I get introduced all the time as working for SCAM or SANK or something like that. There are two syllables in our time.

We have over 500 organizational members who help produce and develop affordable housing throughout Southern California. Our members have built 76,000 affordable housing units since 1986, and last year, started, completed or were in construction on $1.7 billion worth of projects.

Our members are great supporters of CDBG, and I'm going to touch on two reasons why in my testimony briefly: First of all, Los Angeles City is in a housing crisis. There's not enough housing units being built. For example, between 1990 and 2000, the L.A. City population grew by 200,000 people. 80 percent of that, by the way, from births.

However, L.A. County only produced 37,000 new units despite the 200,000 population growth. So there's a very large mismatch between the need and the production. In fact, the Southern California Association of Governments SCAG, perhaps another horrible acronym estimates the City needs to produce 47,000 new units to meet the current demand.

What happens when demand is not, assuming production, doesn't meet demand prices rise. Of course, it's basic economics, and last year the medium price for a house in this city was $328,000. That's the medium price of a house. That's a 30 percent increase since the year before. So it makes sense that the statistics show that home ownership rates in Los Angeles have actually dropped in the last ten years.

They—home ownership has risen in California, it's risen across the country, but not in Los Angeles. It's dropped. And so again, it's understandable that most of the City rents—62 percent of the City residents rent. The medium rent for a two bedroom/one bath apartment in the county is $1,100. $1,100 for a low-end basic two bedroom/one bathroom apartment. That means people cannot afford this.

A person earning a minimum wage has to work a 124 hours a weak to be able to afford that which means a family—a family of two people working minimum wage still have to work over 60 hours. So there's a massive housing crisis in L.A. City that's still current. That's my first point.

My second point is easing the housing crisis our members believe happens to be production of new units. Production of affordable housing to meet the demand. CDBG helps ease the housing crisis. Basically, local officials and the people who live in the region understand that we need to build our layout of this crisis.

Earlier this year L.A. City Council and Mayor Jim Hahn approved $100 million affordable housing trust fund to help produce new units. And last year 63 percent of L.A. County voters voted yes on the statewide initiative of Prop 46 which is all about housing, a $2.1 billion housing bond. So people who voted for this knew what they were voting for. 63 percent of County voters voted yes.

Despite this new money, L.A. Still desperately needs CDBG. It's a critically important financial tool. As Miss Gay pointed out, it's a tool that our people—our members leverage. So we're a portion of the City funding helps fund L.A.'s high leverage program which is a key source of local support.

So for example, Esperanza Community Housing Corporation, one of our members, was awarded almost $600,000 from the housing department. Some of that money is from CDBG. Well, Esperanza used that first grant of $600,000 to raise an additional $2.8 million and was able to build its Alley Grave Court project. So the money was used to leverage other money.

And CDBG also helps to fund the City trust fund. An example of the trust fund which is new to L.A City, it committed its first rent of 13 projects earlier in the year, and these 13 projects will produce 700 new affordable units, and CDBG's a factor within this fund. So in conclusion, I'd like to say this our members or semi-five area developers all have CDBG money in their projects. They all need it.

One of the most important strengths of the program is its flexibility. It allows the counties to use the money to best fit their own needs. The rest of the state does not understand Los Angeles's unique needs, its overcrowding, its high prices, its unique City needs. So we support the program as is. I appreciate the time. Thank you.

[The prepared statement of Sam Mistrano can be found on page 121 in the appendix.]

Chairman NEY. Ms. Gay.

Ms. GAY. I'm here wearing two hats, Chairman Ney and Congresswoman Waters and other members. I just want to thank you for having me. I'm here as the associate director for the Los Angeles Metropolitan Churches, and we are an organization of 45 small and mid-size churches.

Most of our work focuses on employment linking residents to job opportunities as well as education opportunities for exoffenders. I also happen to be the chairperson for the Los Angeles Empowerment Zone Oversight Committee, which is the community group that was convened as a result of the Community Development Bank we had formed in 1994 and 1995.

So I'm here today to make testimony in terms of the Community Development Bank's contribution to CDBG, but more importantly I want to lift up for you that the task of the Community Development Bank's lending was to raise the economic status of empowerment zone residents, and in our opinion, that was not done.

The other point that I want to lift up for you is that the result of the lending was to link residents to job opportunities. There was no mechanism to do that which means that that component of the bank's goal went unfulfilled. As a requirement by the Federal regulations, the empowerment zone and oversight committee was established and firmly fostered those partnerships between the public sector and the private sector.

In January, 1997, the L.A. City Council had to instruct the Community Development Department to identify a source of funds. These funds were CDBG funds of approximately 144,000, and those funds would be used by the empowerment zone oversight committee to carry out its oversight work of the job linkage and job creation.

So as you can see, from '95 to '97, there was no funding, no apparatus, no infrastructure that was put in place behind that mandate in the cooperative agreement. It took the community two years to get funding to make a phone call, to send out a fax, to be at the table. In order for residents to participate, we have to be at the table. Since that time, the empowerment zone oversight committee has approved over $100 million in a request for Federal funds by both public and private entities that operate in the zone or that serve zone families.

About 60 million of those funds have actually come into the zone from other sources than the loans that were made by the Community Development Bank. Also, our committee has provided technical assistance and capacity only for microbusinesses, small businesses and community-based organizations in the empowerment zone since 1995.

We've also provided ongoing staff support using CDD staff which is our administrator in this project to support the youth programs in the empowerment zone, Yo Watts, the Cooley Program, all of these were initial employment demonstration programs in the empowerment zone. In 2000 when the zone actually received the wage tax credits, remember prior to 199—to 2000, we didn't have that. In 1998, HUD gave us our full designation as the empowerment zone which the tax credit would take effect in January 1, 2000.

So from 1994 until January, 2000, there was actually no mechanism and no incentive under this particular lending apparatus to attract or retain businesses. Neither was there a wage incentive for them to employ residents from the zone. One of the questions I want you to ask is: If they're not going to tell us what happened to all the money, where are the jobs?

Where are the individuals that were hired by the jobs, the 90 percent jobs that were created, which are those empowerment zone residents? That's one question we want to know. Of the 51 percent that were supposed to be retained, are any of those employees actually living in the empowerment zone or these high-census poverty tracks? We have been unable to get that information.

Additionally, a couple of months ago, HUD came out with a report that tells us that there's five states in the union that have a disproportionate number of homeless, undocumented immigrants and individuals who are below the Federal poverty line. California is one of those states.

HUD has lowered the average medium income which is going to place an additional burden on our community development corporations, economic development corporations who offer affordable housing and other services that these residents need that's going to place an additional burden on them, and they may no longer be able to provide those services.

So I wanted to lift that up for you. The employment needs that are emerging in the empowerment zone are particularly in the 35th Congressional District are comprehensive and adverse. We've been told by another division within the corporation of the city, our public safety arm, and the State Department of Corrections that approximately 30,000 parolees and probationers will be returning to these very communities that are currently designated at empowerment zone census tracts. How do we want to address this problem? We're also being told that there's a tremendous housing shortage. How are we going to meet those needs? The County also has a health crisis. How are we going to meet those needs? The very census tracts and zip codes that the economic development activities that were treated by the empowerment zone with all of these other myriad domino effects happening, we still would like to know, the bank didn't do this; the loans didn't do that, how are we going to address the job linkage, job creation, job placement requirement? This was not an option.

This was an express outcome in the cooperative agreement as well as the empowerment zone initiative, so we have these recommendations. For the committee: We believe that about $50 million of the Section 108 fund which is equivalent to 1,400 jobs at the market rate of 35,000 for one job, we're not sure if that is the equivalent market rate today, but we're going to go with that number, that that should be used for broader CDBG-eligible purposes to create an empowerment zone job creation and training center that could address the needs of this population in the empowerment zone.

We already have a study that's been commissioned to June, 2003 with refunds investment at the empowerment zone oversight committee worked to put in place. That study will be complete in May, 2004. So our request is for implementation funding of which these funds that are on the table for discussion right now could be used for implementation of the recommendations that the City will produce in May, 2004.

Finally, the empowerment zone oversight committee recommends that the following criteria be applied for all remaining activities for Section 108 funds including any portion of the funds that are reprogrammed for CDBG objectives or for outside the zone.

Number one, the empowerment zone residents must have access to at least 51 percent of all jobs resulting from loans made on any economic development activity with remaining Section 108 funds. $50 million to create an empowerment zone job creation and training center with four satellite subsites in the other remaining com-

munities. Empowerment zone residents must be trained in the areas where they are deficient. Empowerment zone consideration in review of the cumulative effect of ecological and environmental impact, as they are improving our areas, and whenever possible, headquarters of businesses should be located in the community, and they should be—utilize local services and its suppliers.

So what we want to leave you with is that even though the bank has struggled, and I will admit that it's—I personally, I think it's important to know that I personally have been a part of this process since 1992, when the application was actually prepared, we didn't get anything, so everyone whose come to speak to you outside of myself and one other individual are new.

So I think it's important to understand the historical process that has gone on and that the community participation experiment is only real if the community is actually participating in decisions, sharing power and having a real voice, and so I'm here to represent those 200,000 nameless, faceless men and women in the empowerment zone who need these jobs, who did not participate in the economic benefits from the lending that has occurred; and we would like to know: If we don't have the money, where are the jobs?

Thank you for your time.

Chairman NEY. Thank you.

For the record, we have two additional witnesses who have joined us. One is Felipe Merino and—with the Molina Gardens Improvement. The other is Arturo Ybarra with Watts Century Latino Organization.

STATEMENT OF FELIPE MERINO, MOLINA GARDENS IMPROVEMENT

Mr. MERINO. Good afternoon, Mr. Chairman and Congresswoman Waters.

Thank you very much for allowing me to testify before the subcommittee today. My name is Felipe Merino. I'm the Executive Director of the Molina Gardens Improvement. I'm the 501C3 community-based nonprofit in the City of Hawthorne, serving Hawthorne, Lawndale, Lennox Gardena and other surrounding areas.

Our community-based organization provides very vital services to the community, services that I would say are at the front line of survival for a lot of families. We help folks with housing issues, Government benefits, health care access to State-sponsored programs and other social services that are very necessary for a lot of our families.

We work in direct partnership with over 150 partner agencies including educational institutions, electrical government agencies and other nonprofit organizations. Most namely, we work with the Hawthorne School District directly so we can make sure that the children of our community have access to resources so that students can get a good quality education. We've found in working with the Hawthorne School District that a good quality education doesn't just mean the textbooks. It doesn't just mean what happens in the classroom. It means everything after the home, after school and before school. It means making sure that the child is safe, making sure that the child has a roof over his head, that they have food on the table. That their parents are able to get medical insur-

ance. That their parents are able to teach them that the cycle of poverty can be broken, and that they can excel at everything that they set their hearts to.

As a small nonprofit organization, what we've been able to find is that CDBG resources are tremendously necessary in the community. They really are an access to other resources is not readily available to everyone, which is a sad state of affairs particularly in our community where so many things are needed.

But let me share with you a little bit, and I'll be brief. I'll share you with a little bit about what happens in our community in the City of Hawthorne. In our community, we started off this nonprofit organization. When I came on board, we had an annual budget of 6,700 and something dollars which is amazing that an association of nearly 150 different partner agencies was getting all those different types of things done in the community. However, there was nobody on board to make it a concerted effort or to channel the agency of those other nonprofit agencies or other individuals from the community.

After our first year, through the budgetary cycle, we were at $87,000, I believe, for an annual budget. The reason largely—the reason why we were able to expand our budget, and now we're at a point where we're going to be closing out our books at about $250,000 a day after two years is because of CDBG funds because that money was accessible to us by way the City of the Hawthorne, and we had the support of people here are CDBG funds.

Why don't you apply for them? Now before that point, we had a terrible time as a small nonprofit organization trying to raise money and develop the kind of credibility that we needed in the community and in—with foundations and with other government agencies to do the kind of things that we're doing now.

But once that money was available to us, it was to—would have a multiplier effect. We were able to leverage those funds because all of a sudden we had the backing of not only the City but the Federal Government, and we were table to say, "We have Federal dollars by way of the CDBG program—and mind you it was only $10,000 because it's—a percentage of the budget goes to direct program services by way of nonprofit organizations, but that amount of money has now multiplied to what, next year our budget will be closing out at about $600,000 is our projection at this point—and that's not even starting the fiscal year yet.

So I want to thank the Federal Government for the CDBG program; however, I caution you that in the written testimony that I've provided there are three different concerns that I have as far as access to the community block rent funds: The first one being that many nonprofits don't even know that the funds exist.

Whether it's because they're grass roots nonprofit organizations where the education level attained by a lot of the individuals that are part of the nonprofit board doesn't permit them to know about such resources and because they start off with such humble beginnings like ours.

The second is that a lot of times elected officials are disconnected from what's going on at the grass roots level, and they really don't understand that the survival of these organizations depends on funding like CDBG funds, and unless you have somebody who's

completely savvy on your Board of Directors or involved in your organization, it never trickles down to those organizations.

It only trickles down to the organizations that people know about which is very unfortunate, as Miss Waters mentioned earlier, that that's been what's been happening.

And the third point that I have is—is the notice requirements. The notice that's given about CDBG funds is done by newspaper—by way of newspaper which is a very minimum requirement for people to satisfy. However, not all of the individuals involved in community agencies in the business of survival of community members have time to read through every one of those little notice provisions that comes in those throwaway papers that go through the communities or even some of the larger papers where they're compacted and put in some obscure section of the newspaper.

And at the end of the written testimony that I provided, I make a few suggestions that you may want to consider or reject, whichever you prefer: The first in order to deal with nonprofit organizations, the smaller nonprofits becoming aware of those resources and also being able to apply for CDBG funds.

I've suggested that some kind of technical assistance be provided to nonprofit agencies so they're able to develop the kind of accounting mechanism that they need to have a place in order to track funding and be able to receive funds from cities and from counties in the area. The second is addressing the concern about elected officials not being aware of what's going on at the grass roots level and needing somebody politically to be involved.

I don't think that funding for CDBG programs should be contingent upon whether or not you know a political or elected official. I really believe that it should be a broad enough process where everyone has an equal chance and equal access to those kinds of resources because I think there are many good causes that are being looked over for whatever the reason, and I think in order to employ that, you would have to require some kind of mechanism in which you were able to get information about other nonprofits.

I know that there are several Web sites in place right now where, if you wanted to investigate a nonprofit organization, you wouldn't have to call the IRS. You could get on Web sites and find out financial information about nonprofits. I don't know how difficult it would be to link that up with some kind of database that local governments would have to access in order to identify nonprofits within their zip code or within their community that could provide equally as good services as the ones that are being contracted for elsewhere.

And the third is the notice provision of CDBG services. A lot of nonprofit organizations have absolutely no idea that the CDBG funding exists. And I've suggested here as a—as a way of notifying nonprofits that that funding is accessible, that there probably be some kind of collaboration with the Internal Revenue Service that when nonprofit organizations are notified of their nonprofit status, that there be an instrument of some sort notifying them that there's Federal funding available and a possible suggestion of some Web sites that they could combine possible resources from some other resources.

[The prepared statement of Felipe Merino can be found on page 131 in the appendix.]

Chairman NEY. Mr. Ybarra.

STATEMENT OF ARTURO YBARRA, EXECUTIVE DIRECTOR, WATT CENTURY LATINO ORGANIZATION

Mr. YBARRA. Good afternoon, Chairman Ney and Congresswoman Waters and Mr. Jones. My name is Arturo Ybarra, and I'm the Executive Director of the Watt Century Latino Organization. Watt Century Latino is the only Latino Multicultural oriented in existence in the whole south central area of Los Angeles. We have been in existence for the last 12 years. We are currently involved in programs to—that go from violence prevention to emergency education, homeless prevention and counseling, job training and placement.

And we also have other projects distributing safety car seats for needy families in the community. And we are concentrated in serving a community that is growing all over California, especially in South Central Los Angeles. Latinos are now 60 to 65 percent of the total population in South Central Los Angeles.

Watts Latinos are close to 70 percent of the population. And unfortunately, there is a total lack of infrastructure to channel services and resources to these communities. A public official mentioned earlier that many people in our communities are reluctant to deal with government programs because—because of the stress of government, and it's very much true within the Latino community or the immigrant community.

But whenever there is—there are programs that are culturally and—and very sensitive to these sectors, special sectors, the—the programs are property market are very successful. In 1994, the Watts Century Latino Organization insisted they become an action of the Los Angeles Housing Department to successfully market a residential loan program in Watts.

Unfortunately, it was only a drop in the bucket because despite the success of this type of program, it has never been implemented. Watts has a very large old housing stock with many senior citizens and many houses that are in urgent need for rehab. But never, as I have told you, never again, these are residential low interest loan program, has revisited our community.

My organization will be more than happy to help any senior or County officials or department in conducting these kinds of committee outreach comprehensive and sensitive marketing activities to market these rehab loans or even those grants that are available to improve facade, if those housing—houses are in need of.

Finally, I would like to suggest to local officials to—that are in charge of distributing the CDBG funds, to get in touch with my organization. We will be more than happy to coordinate the development of a kind of strategy to facilitate access for available funds for rehandle grants improvements and other community development programs especially for monolingual Spanish-speaking and immigrants.

Chairman NEY. Thank you. Just—I really don't have a question. I want to thank you for your testimony, and you know, it helps to acknowledge whether you're supporting CDBG or not.

Just a couple of, I guess, points: One, for Ms. Branch, any questions, and we have for the record your testimony now; but other questions you want—you would want asked, and it seems you have probably a few people that have been there from two years to today through the home situation.

I think it's good to pose the questions of what happened, because if there's going to be oversight and HUD is going to be involved in an oversight sense, whether it's here or where I live or whatever state, we've got to ask questions of—of what went wrong in order to find the ability to make sure things go right. Not just here, anywhere in the country.

So any other questions you'd have, I think it—it kind of interesting to me that something just hasn't been answered. They always elicit testimony, and then I kind of clear and then confused. That happens to me quite a lot wherever it is. But anyway, I thought I deserved that.

STATEMENT OF CHERYL BRANCH, ASSOCIATE DIRECTOR, LOS ANGELES METROPOLITAN CHURCHES

Ms. BRANCH. I think you understand how we feel. It's just the most frustrating for me to be in a process where they say the goal is to have community participation, and then we're not there. But I think in addition to asking for a breakdown, ask Mr. Sausedo and the community development department, Mr. Graves, to provide for you a breakdown of the so-called 9 percent jobs that were created.

We want the census track breakdown or the Zip code. The mandate when the bank was created, was there were 2000 criteria in order for an individual to get a loan from the bank. Number one was that they had to be turned down by a conventional banker.

Number 51—they had to have a business plan. That included that 51 percent of the jobs would be given to zone residents. They also had to have a business plan that indicated how for every $35,000 borrowed, they create a job. No one ever—they say that there's no time frame on when this should occur. That—that shouldn't—that's a question: Why are we doing it that way? Why is there an open ended because the community doesn't have an open ended option on balance, you know in terms of meeting our needs. So we would like to see—there should be a time frame, and actually, our committee has made a question for that in 1998, 1999 and 2000 that borrowers be given two years.

Some of those things we haven't been able to get any feedback. You can ask them: When did they inform the borrowers that they had a job creation requirement? I have heard from some borrowers and some individuals who've tried to access funds or who got funds and their business failed and they weren't aware of the job creation requirement when I inquired to them from any question. Where is the job?

They didn't know so we want to know: At loan closing? At quarterly report? Disbursement of the first payment? When are you telling individuals that they have had job requirement? How is the City assisting them in meeting that job requirement? We heard Mr. Sausedo did support the community's position in that the bank turned to the city's work force development system, the ones that used to be JTPA.

Now, it's one stop, and that that system was not able to help them. That's not a response because you're—your mandate, the requirement, this is not an option. It's expressly stated was to link residents to job creation. So you want—you want some real question—you want some real answers as to why did none of these things occur, and if they didn't occur in the empowerment zone, the committee group has gone to our council reps and CDD and asked for that to be addressed in the transition plan.

So the community is attempting to behavior like the other key stakeholders. If we were unable to fulfill what is written, then we're going to request a reprogram and try to make lemonade out of lemons, and the community is making the same question, if we were unable to get the jobs that were promised.

We're asking if you're going to reprogram the 108 monies, you must include our response to the job linkage and creation piece. I think those would be some key—ask them how are they teaching microbusinesses and small businesses to utilize the wage tax credits? Is there any technical assistance or capacity building apparatus in the City to assist a microlender or a small bid owner if they even wanted to take advantage of these so-called incentive.

Chairman NEY. Another real quick observation. It's a matter of, I think, communication to you, Mr. Merino. You know of this. I don't know that they would do that or they could technically, but still an idea of trying to get communication out there somehow. I understand that maybe we do look at ways to do that, and Mr. Ybarra, one other thing, too, is you might be able to find out who you were saying about the crews contacting the Latino community, through HUD, I would assume, I'll be checking it, of who, in fact, has the hearings, and you would then contact them to let them know that you're out there.

Mr. YBARRA. All right. Well, we have found from City agencies and even foundations very hard to invest in emerging conditions and organizations. Like Watt Century Organizations. I mentioned to you before, we are the only Latino organization in an area that has experiment that bring dramatic changes in the composition of its population, that brings lots of challenges, and some of those challenges and various for Latinos are the language barrier. Not knowing how the system works, we—we don't know how to process the government processes work, you know, and foundations and City agencies rarely want to invest or to risk any investment of funds in this emerging organizations.

So if there are no resources for us to learn how to work with the system, how we are going to be able to work with the system? Something we have to learn, but in order for us to learn, we need—we need people with—with the know-how to show us where is the way. You know, how can we get access to those funds? We have a—a community resource center. You know, we got it in 1998 out of a class action suit against a Public Housing Authority of the City of Los Angeles due to the institution of neglect because of the living conditions for residents in the public housing in Watts.

Out of those $50,000, we bought a liquor store, a former liquor store, to convert to a community resource center. The government—and we got a $50,000 from this class action suit, and we invested it in this community resource center.

Out of that, we haven't received any—any kind of assistance from the government, and this is a very particular situation for a recent immigrants and mono English-speaking people in Los Angeles and in Watts.

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

Let me just say thank you to Chairman Ney for coming to Los Angeles during his break when he could be in his own district or taking vacation as many of our fellows are doing. But I made this request to him, and he listened and we have formed a bipartisan effort to try and deal with some of the problems of housing and rural—and in urban communities and, of course, this CDBG Section 108 which turns out to be large and important sources of—of funding for our communities.

So I'd like you to know that I would not be able to do this without him, and it's very important that he's here. Mr. Chairman, the people that you see before you are extremely important for a number of reasons. I'd first like to say to Mr. Merino and Mr. Ybarra, thank you for responding on such short notice.

I want you to know that as our Washington, D.C., staffs attempt to work to put this together, it is difficult—and what normally happens is the—the traditional well-connected organizations get here, but the new ones don't often get here. And when we discovered what had happened, we were anxious for Mr. Ney to hear some new voices about what is and what is not happening.

And you represent that for us, and I'm very appreciative for the work that you do. Mr. Merino is an attorney who went off to school and came back to work in his community and struggle, like he said, starting with $6,000 nonprofit donations and fighting the establishment on all of those things in order to bring some services to his community. I was recently at Mr. Ybarra's to celebrate "Cinco de Mayo" and was reminded one more time about the struggle of that corner of the district and lack of—of resources.

Now, Ms. Branch is extremely special because not only does she understand this game, she is a professional grantsmanship person who understands the rules, written and unwritten, of this response to request proposal magnes that all these nonprofits are caught up trying to access a few dollars. And her work is such that she's committed to the community, not only in trying to help them access funds, but trying to make the establishment do what it's supposed to do and given of her time to get the kind of oversight that she was so articulate in describing.

I take her recommendations seriously, and I need to ask you just briefly, whether or not the $50 million that you point to that need to be erected toward the supplemental zone or the zone that was intended under the following insurrection, that's the same 50 million that you're talking about that Mr. Graves is talking about, you know, they have a plan, they want $50 million. They said they are going to use that $50 million to do the same thing that they would have been doing with—with the money from the Section 108, from the Community Development Bank. That's what they say. Then the other 4,800 or 46 or so, they say that they want some flexibility, I think, with that to be able to not only service the zone, but also to service the old Section 108 identified areas in the City. I'm a lit-

tle bit skeptical of that. Are you all on the same track? Are you talking about the same thing?

Ms. BRANCH. We're talking about the same funding, the same 50 million, yes. The same total 46, yes. We're talking about the same money, yes. But we're not talking about the same uses. We would support the city's desire to spend some of the 108 funding in low to mod census tracks outside of the zone. We support some of that because we understand why.

Ms. WATERS. Okay.

Ms. BRANCH. We understand why; however, we will need that of that—not with that proposal there should be at least 50 million earmarked to continue the job linkage and creation for lending activity that occurs with whatever's remaining.

Ms. WATERS. Now, that's what he claims they want to do with that 50 million, that first 50 million request. That's what he's——

Ms. BRANCH. That's not true. I didn't read that, and I do have a copy of the city's transition plans because it comes to my committee for approval. As of last Thursday, it wasn't in my board meeting, and I raised in the board meeting there.

Today what I heard, the City wants to use 50 million to continue lending activities with a broader CDBG use. That's what I heard today.

Ms. WATERS. Ah.

Ms. BRANCH. I did not hear that they want to use that money to focus on linking residents to job opportunities as a result of lending from the full portfolio.

Ms. WATERS. Okay.

Ms. BRANCH. I think that's worked in part.

Ms. WATERS. All right. Well, that's very good. And let me suggest to you Miss Branch. You know, they very timely and, you know, as our maker would have it, we're just at the right point in time to catch the transition plan before it is given to HUD by September.

And we may be at the right point in time to pull the community together to have our own hearings and bring everybody out and lay this plan out so that we can influence what happens with it. I am committed to the prop signatures that that money was intended to be spent in a certain way, and we can't see it distributed away with some other wishes by the city, so I'm so glad that you're here. Thank you.

Miss Gay, I want to thank you, and I'd like you to know that we are focused on predatory lending. As a matter of fact, as you know, we've had a number of pieces of legislation, and there's more legislation that is coming forth; and we've got to try and find a way to make this a bipartisan effort so that we can get something real. I don't want to be in a fight with my colleagues about whether or not we have a bill that simply puts some window dressing on this very, very terrible problem.

Let me just say this to you: And a lot of people don't understand it, I am so outraged with the predatory lending practices of our banks and our financial institutions that I do not allow them to be sanitized for donations to the community.

As a matter of fact, I resent what I call the fifty cents to the Boy Scouts, in an effort to get CRA credits, and at the same time, they

are taking somebody's grandmother's house. So what I—and one of the things I want to work with the housing organizations and—and talk about is getting tougher.

Because what they do, they come to you all, and so many different ways, and they come to support something or they'll be at the annual dinner or they will come with us to help paint a house once a year and the bank get their name all over the house; and I don't do that stuff.

But what I want to do with the housing groups is, I want to get tougher on the banks and not let them buy off with this shell game so that we can force them to do better from, you know, whatever we're attempting to do with predatory lending.

So I thank you for being here. I know that—I will tell you the nonprofits that you talk about are doing an extraordinary job in building capacity. From my own view of things in the past ten years or so, all of that housing that we have, it's because of these nonprofits who learn the game and build capacity and went out there and did it.

Now, you got to stop building so much single homes and build some more multi-family, for just poor people. I respect that. They're not here today. You're here. I'm speaking for them. But we know them all. We know who all the players are. And they—we—we respect the work that's done, and when I ride through my district and I see some of that housing, I'm very thankful for it. So we're glad that you're here.

Again, thank all of you for coming today, and that concludes my comments.

Chairman NEY. I want to thank the ranking member, my boss from Ohio, the ranking member of Massachusets, and my name's Bob Ney. I chair the subcommittee. Our ranking member's Maxine Waters. I want to thank Congresswoman Waters for having us here. This is the first hearing of the 108th—first field hearing. That's right. I've got to say we've had 11—we've had more activity, both of us, in—and I think in recent history, we've had 11 hearings within the Capital. This is the first outside, and so—so happy to be here.

Ms. WATERS. He hasn't even been in his own district to a hearing. Give him a clap.

Chairman NEY. I want to thank Congresswoman Waters, not how you voted to 2:30 in the morning last week and a long flight here, and obviously she could be doing also with her time take a little bit of breather. We're doing a hearing tomorrow. It's wonderful being here in sunny good weather California. Thank you.

Ms. WATERS. Thank you all so very much.

[Whereupon, at 3:15 p.m., the subcommittee was adjourned.]

A P P E N D I X

June 30, 2003

Los Angeles Empowerment Zone Oversight Committee

"Building Communities Together"

Date: June 27, 2003

To: Congresswoman Maxine Waters

From: **Empowerment Zone Oversight Committee (EZOC)**
Cheryl Branch, Chair, CD 9

EZOC TESTIMONY ON CITY OF LOS ANGELES COMMUNITY DEVELOPMENT BANK CONTRIBUTION TO COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM IN LOS ANGELES AREA

SUMMARY

In 1994, the City was awarded a Supplemental Empowerment Zone by federal the government. The 19-square mile geographic area includes communities such as Pacoima, Boyle Heights, the East Downtown Corridor, the Historic Corridor, Central Avenue, the Slauson Industrial Corridor, the Broadway District, Watts, Firestone and Willowbrook. Through the Empowerment Zone Oversight Committee-- a 12 member appointed community stakeholder group-- public, private non-profit and community-based agencies, and residents have been working together to revitalize the local economy and provide jobs and safe a living environment.

As required by federal regulations, the Los Angeles Empowerment Zone Oversight Committee was established to further foster the partnerships between the public sector, private sector, and neighborhood residents and groups. The EZOC provides a forum for everyone with a stake in the community to come forward and participate in the planning and implementation of activities in the Zone that will contribute to growth and economic development. In order to carry out its mission it was necessary for the Los Angeles City Council in January 1997 to instruct the Community Development Department to identify a source of funds (CDBG) for the LA EZOC's budget of approximately $144,595.00. Since that time the EZOC has completed the following CDBG eligible activities in the Zone on behalf of Zone residents:

- Approved over $100 million in requests for federal funds by public and private entities operating in the Zone or serving Zone residents/families (approximately $60 million has been secured through December 2002)
- Provided technical assistance and capacity building training for 200 private non-profit agencies or 1000 individuals in the Zone
- Provided ongoing staff support to youth employment programs and afterschool program (Kulick Project/YO! Watts and Youthbuild) for youth in the Zone
- Secured $100,000 in Workforce Investment Act funds from City Community Development Department for EZOC Empowerment Zone Employer and Resident Needs Assessment to be completed in May 2004.

The EZOC believes the Los Angeles Community Development Bank was a grand experiment with great intentions and highly anticipated outcomes, but the community continues to be alienated and our employment needs unmet. The jobs requirement attached to the LA CDB's lending was not met. Therefore, the bank, City and County failed in this area. As far as the EZOC knows the City has not addressed this failure in its transition plan to close the bank. Neither has anyone provided EZOC the current value of a job created by the bank's lending activities or the City transition plan for remaining funds. In January 2002, EZOC initiated a process to work with CDD ICD Director, Jasper Williams, WDD Director Ann Giagni and affected City Council members Ed Reyes, Jan Perry and Janice Hahn, to design and implement a community plan for jobs, employer support and technical training as part of transition plan for remaining Section 108 HUD Authority funds and the Community Development Bank. This report will be complete in May 2004.

The LA CDB, City and County did not act in good faith. They created a bank that was unable to serve businesses in the Zone. It is widely written and publicized that after the economy changed in 1998, 60% of businesses in the Zone needing loans to expand or stay in the City had needs far beyond capital (i.e. advertising, equipment, pricing, insurance, taxes, bookkeeping). After 1998 many businesses originally targeted by LA CDB could obtain loans from conventional banks on their own. Only business with substantial needs beyond capital remained after 1998. The private banks originally slated to partner with us backed out and never provided the private investment promised to make this plan work ---partly because they could lend to the customer directly and partly because its tough doing business with the City and County. Finally, the bank could not address other needs of small businesses due to strict HUD guidelines on use of LA CDB funds. The result was the very vehicle created to provide badly needed capital to Zone businesses and revitalize the community failed to produce causing the job creation and linkage plan to fail.

The emerging employment needs of residents in the Empowerment Zone and particularly the 35th Congressional District are comprehensive and diverse. In my experience the areas that would greatly benefit EZ residents as it relates to CDBG funding and the LA CDB is to create The Los Angeles Empowerment Zone Job Creation, Training and Technical Assistance Center which would house both assistance for Zone residents to access employment and training and provide technical support to employers and small businesses to utilize Federal Empowerment Zone, State Enterprise Zone and Renewal Communities' tax credits, employer wage credits and other incentives for relocating or expanding business and economic development in the Zone. The Center would aid community organizations and small businesses in the development of planning, goal setting and techniques of coalition building for economic development, employment and planning. It would supplement other CDBG funded capacity building projects, which were designed to assist local community development corporations in underserved areas (i.e. EZ, EC, RC), and training programs for community-based developers of inner-city commercial/industrial real estate developments. Business planning and management concepts would also be incorporated.

The EZOC further recommends that the City include in its plan to reallocate the remaining City Section 108 loan guarantee authority (approximately $196 million) currently allocated to the Los Angeles Community Development Bank (LA CDB) according to the use described below:

- Authorize the General Manager of CDD or designee to work with the Empowerment Zone Oversight Committee and other entities to amend the Empowerment Zone Strategic Plan, City's Consolidated Plan and other required documents to enable the Section 108 loan guarantee authority to be used in a manner consistent with the job creation and linkage activities described in the original Empowerment Zone Application and for the creation of the Empowerment Zone Job Creation and Training Center to accomplish this requirement.
- $50 million (equivalent to about 1400 jobs @ $35,000 for one job) will be used for broader CDBG eligible purposes as determined by the EZOC Needs Assessment than those originally intended for this funding (i.e. acquisition, rehabilitation, technology, equipment, operations). Without the jobs promised by the LACDB, City and the County, we the EZOC make this recommendation as part of our stakeholder interest. This recommendation is consistent and complimentary to the City's plan to address the partial failure of the bank and its inability to prudently loan these funds and fulfill job creation and placement requirements as provided for in the Cooperative Agreement with the City, County and HUD.

BACKGROUND

Los Angeles is quite fortunate to have the staff, consultants, elected officials and appointed committees, who have demonstrated their commitment to the implementation of the Los Angeles Empowerment Zone and the Los Angeles Community Development Bank. Commitment is not enough. As the safe-keepers of the future of communities and the residents, we must give our greatest care and thought to the implementation of programs, projects, business incentives, etc. These communities cannot be viewed only as potential income generating sites for private industry; to succeed the residents must develop a sense of ownership which can be achieved if they are considered and participate in every aspect of the process.

The EZOC takes its responsibility seriously. We fully recognize the impact our actions may have on the lives of many residents of Los Angeles, most of whom are poor and have had no voice. The committee understands that community empowerment means access to, partial control of and full participation in, the assets and jobs resultant from empowerment zone legislation.

The public agencies, elected officials and our committee, must agree to relinquish some of the control. We must agree to a business and philosophical approach that leaves the community whole. We deprive empowerment to the poor communities of Los Angeles, if we do not include the residents in every aspect of the community revitalization and rebirth: from planning to implementation with employment as a primary factor.

RECOMMENDATIONS:
EZOC recommends the following criteria be applied for all remaining activities for Section 108 funds including any portion of the funds that are reprogrammed for CDBG objectives or uses in the Zone or other areas not yet determined:

1. Empowerment Zone residents must have access to at least 51% of all jobs resulting from loans made or any economic development activity with remaining LACDB Section 108 funds in the Zone and/or in the buffer areas or other low moderate-income areas.
2. $50 million to create LA Empowerment Zone Job Creation and Training Center hub and 4 satellite sites according to EZ Employer and Resident Needs Assessment commissioned by the City and EZOC June 2003. This study and recommendations will be complete in May 2004.
3. EZ residents must be trained in the areas where they are deficient, providing incentives to education in semi professional careers.
4. EZOC consideration and review of the cumulative effects on ecological and environmental impact as projects are considered and approved in the target areas.
5. Innovative approaches and opportunities must be developed to retain residents as they stabilize, economically and socially.
6. Support the creation of moderate income housing within the Zone and buffer areas.
7. Whenever possible, headquarters of businesses should be located in the community, utilizing local services and suppliers.
8. Identification of environmental and societal effects on the educational process for all school age children, must be initiated to reduce: dropout rates, gang involvement, public health emergencies, homelessness, underachievement, transfer to continued or home study, disrespect, intolerance and despair in the target areas.

In conclusion, the City, County, LA CDB and EZOC should consider job training and employer education and technical support as part of its responsibility to the job creation requirement at this time of transition and closure of the LACDB.

For more information, contact Cheryl Branch, Chair EZOC at 213-553-1870 or email cherylbranch@aol.com.

UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES

"Community Development Block Grants (CDBG): The Impact of CDBG on Our Communities"

General Deputy Assistant Secretary Nelson Bregón

June 30, 2003

Good morning Chairman Ney, Ranking Member Waters, and Members of the Subcommittee:

Thank you for the opportunity to be here this morning as part of the Subcommittee's examination of community and economic development activities for the City of Los Angeles. My name is Nelson Raphaël Bregón, and I am the Deputy Assistant Secretary for the Office of Community Planning and Development.

I am here today on behalf of Secretary Martinez and Assistant Secretary Bernardi to discuss one of HUD's most important tools for community and economic development -- the Community Development Block Grant (CDBG) program. As you are aware, State and local governments depend on HUD and its system of grants to support community and economic development projects that revive troubled neighborhoods and spark urban revitalization. We at HUD are working to support and strengthen these core programs by ensuring that grantees have even greater flexibility to address locally determined priorities and maintain long-term prosperity. Our goal is to make these programs more effective by studying ways to reward communities that commit to results-oriented, outcome-based performance plans.

This year HUD requested nearly $ 4.5 Billion for the CDBG program to meet local community and economic development needs in more than 1,000 eligible cities,

counties and states. More than $ 146 million for Los Angeles and Los Angles County the Second largest recipient of CDBG program dollars in the Nation.

We are all aware that one of the most important reasons for the success of the HUD sponsored CDBG program is its reliance on local community leaders to identify key revitalization priorities. CDBG activities are initiated at the local level based on a community's identified local needs, priorities, and benefits to the community, as identified in its Consolidated Plan submitted to HUD in conjunction with CDBG, HOME, and certain other HUD programs.

Entitlement communities such as Los Angeles may use CDBG funds for a variety of community, housing and economic development activities focused on neighborhood revitalization, economic development and the provision of improved community facilities and services for low- and moderate-income residents. Those communities receiving a grant are free to determine what activities to fund as long as certain requirements are met, including that the activity is eligible and meets one of the following three national objectives:

1) Benefits low- and moderate-income persons;
2) Aids in the prevention or elimination of slums or blight;
3) Meets urgent community needs that the community is unable to finance on its own.

In addition, seventy percent (70%) of an entitlement grantee's CDBG funds (including section 108 loan guarantee proceeds and EDI and BEDI grants) must primarily benefit low and moderate income persons, calculated in accordance with HUD regulations on a one, two, or three year basis and certified by the grantee.

The responsibility for ensuring that local CDBG programs meet Federal requirements rests initially and primarily with the executive authority (e.g., Mayor, County Commissioner) of each CDBG grantee, subject to monitoring by representatives of HUD's Office of Community Planning and Development and audit by HUD's Office of Inspector General.

Working with local governments, nonprofit organizations are an important and statutorily authorized conduit for neighborhood-based program delivery. Nonprofit organizations are often asked to undertake projects that are inherently risky because of factors such as location, crime, poverty and disinvestments. Cities utilize nonprofits because they have specialized skills and neighborhood acceptance. It is important to note, however, that the primary responsibility for ensuring that CDBG funds are used to revitalize low- and moderate-income neighborhoods belongs to the CDBG grantee.

The CDBG program statute and regulations require that grantees identify eligible activities that will provide benefits to communities, especially low- and moderate-income communities. The flexibility of the CDBG program allows grantees to implement community development activities based on local decisions. Communities may choose to provide assistance to nonprofit organizations for neighborhood development initiatives, as they deem necessary. But, the success of any community development initiative must

include accountability for use of program funds to create tangible results in its neighborhoods.

Working together with local leaders, state officials and Members of Congress, we, at HUD, have forged a partnership that has made CDBG a shining example of how government can work.

Thank you very much and this statement concludes my opening remarks.

TESTIMONY BY
YVONNE BRATHWAITE BURKE
CHAIR, LOS ANGELES COUNTY BOARD OF SUPERVISORS

FIELD HEARING OF
THE HOUSE COMMITTEE ON FINANCIAL SERVICES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

LOS ANGELES, CA
MONDAY, JUNE 30, 2003

Good morning, Chairman Ney and Member Waters.

It is my pleasure to welcome the Subcommittee to Los Angeles County and Exposition Park, which is located in my Supervisorial District.

Federal programs have played a key role in helping to improve the quality of life for low- and moderate-income people and areas. Two of these programs include the Community Development Block Grant (CDBG) and Section 8 Housing Choice Voucher programs, which Congress oversees and which are the focus of this week's hearing. It is vital that Congress maintain the current structure and administration of these programs, which are especially vital in this difficult economic time. They are safety nets that are literally keeping many families and depressed communities alive.

I would like to address the Subcommittee regarding the CDBG program and give a status report on the Los Angeles Community Development Bank.

CDBG PROGRAM

I would like to acknowledge Congress' past support – and in particular your support, Congresswoman Waters -- for Los Angeles County's CDBG program, which is the largest Urban County program in the nation. In Los Angeles County, the vast majority of our CDBG funds are used productively for housing and community and economic development projects. Our CDBG funds are commonly leveraged with funding from other sources to collectively develop affordable housing, revitalize neighborhoods, and support businesses.

In addition to brick-and-mortar projects, CDBG funds are allocated for important "public service" activities. Thousands of Los Angeles County residents have benefited from public service activities such as meals for seniors, after school programs for youth, drug intervention, homeless assistance, and domestic violence counseling.

The impact on the local community has been positive in large part because Congress has structured the CDBG program so that local jurisdictions have direct oversight responsibility to make program and funding decisions that address local

needs. This flexibility enables the Board of Supervisors to implement programs swiftly and without hesitation.

We also appreciate that Congress has provided Los Angeles County with the approval through a waiver to increase its allocation of public service authority from 15 to 25%. The waiver is scheduled to expire one-year from now on July 1, 2004. The Board has sought continued Congressional approval of our waiver request to utilize 25% of our CDBG funds for public service activities. This is especially critical given the needs of residents within our diverse County and in light of diminishing resources. Thank you for historically supporting the waiver, and we ask that you support its continuance.

LOS ANGELES COMMUNITY DEVELOPMENT BANK

I would like to provide you with a brief report on the status of the Los Angeles Community Development Bank.

The bank is dissolving and will officially close by the end of the calendar year. Our Board has been working with the City of Los Angeles to implement a transition plan for the closure of the bank. We are working with the bank to complete the transfer of the County loan portfolio to the County Community Development Commission prior to the expiration of the program. The assets that are transferred back to the County will be utilized for critical projects. One such project is the development of a major regional medical facility, the Los Angeles Eye Institute. Located in the unincorporated area of Willowbrook, this facility will provide critical eye care to the medically underserved residents of Watts and the Willowbrook communities.

SECTION 8 PROGRAM

I understand the committee will be hearing testimony tomorrow regarding the Section 8 program. Inasmuch as I will be unable to attend, I would like to take just a few minutes to express the concerns of our Board about the Administration's proposal to transfer the Section 8 program to the states. Our executive director of the County Housing Authority will provide further testimony on this tomorrow.

One of the main reasons for the success of the Section 8 program is that it is largely managed at the local level. Therefore, the Board is opposed to the proposal to shift the program to the states. We should not alter the administration of this long-standing federal program that assists over 20,000 low-income individuals. Moving the program to the states would add an unnecessary and uncertain layer of bureaucracy.

CONCLUSION

I know these are trying times. We just went through the County's budget process, and our new fiscal year starts tomorrow, July 1st. CDBG funding will be $38 million, 5% less than the year ending's. Yet I see and hear first-hand the pain from

many of my lower-income constituents. Indeed, in times like these, the need for CDBG and Section 8 programs is even greater.

The administration and delivery of these programs are vital, and your field hearing in Los Angeles is timely and important. Thank you for giving these issues their proper attention. I am sure that through the course of these hearings, you will see how essential these programs are to the people of Los Angeles County. I join all members of the Board of Supervisors looking forward to continue working with members of the Subcommittee and the rest of Congress in ensuring that the CDBG and Section 8 programs serve low- and moderate-income communities in the most optimum, fair, and humane way.

June 25, 2003

U.S. House of Representatives
Committee on Financial Services
Subcommittee on Housing and Community Opportunity
2129 Rayburn House Office Building
Washington, DC 20515

Honorable Members of the Subcommittee on Housing and Community Opportunity:

I'd like to thank the Subcommittee Chairperson Ney and Congresswoman Maxine Waters for bringing this hearing to the City of Los Angeles. As Chair of the Los Angeles City Council's Economic Development & Employment Committee and Vice-Chair of the Housing & Community Development Committee, it is my pleasure to provide testimony as requested on the City's CDBG Program and the Community Development Bank.

Community Development Block Grant

Los Angeles is a large and diverse city with over 3.6 million residents. Angelenos speak over 140 different languages and dialects and hail from all over the country and the world. According to Census figures, 22% of our residents are living at or below the poverty line. The Census Bureau also estimates that the City of Los Angeles' undercount was 76,800 people, mostly minorities. The City loses $242.76 in CDBG and state funds for every missed person. When multiplied over the 10- year period that the census data is used, the City of Los Angeles will lose over $180 million in funding, of which over $60 million is lost CDBG.

Our needs for community and economic development are as many and diverse as the neighborhoods of Los Angeles, and far exceed the Block Grant dollars we have available. Local budgeting of our Consolidated Plan grants allows us to respond to these diverse needs neighborhood by neighborhood and to plan and leverage our Federal grant dollars with locally funded programs such as the City's $100 Million Affordable Housing Trust Fund and our LA Bridges Gang Intervention Program. It is my firm belief that local government understands best the unique needs and challenges in each of its neighborhoods and communities and that the budgeting process belongs where it has traditionally been--at the City level.

One of the primary uses of the City's CDBG is to provide a broad range of community development activities including homeless services, after school programs,

domestic violence shelter, senior services and youth recreation. These services are utilized by over 400,000 clients throughout the City of Los Angeles and in many cases are catered to the linguistic and cultural needs of the particular neighborhood in which they serve. The City is able to provide this array of services due in part to a waiver of the 15% cap on Public Services that allows us to use 25% of our Block Grant on services. This waiver expires at the end of the program year. If not extended, we will face an $11.2 Million or 40% reduction in CDBG-funded public services in the City of Los Angeles. I urge your consideration for extension of the City's waiver or at very least a multi-year, phased approach to reducing the services cap to 15% so as to avoid such a dramatic reduction in services in a single year.

The City's process for drafting the Consolidated Plan follows a similar process as our general City Budget. The City's Community Development Department prepares the Consolidated Plan. The Mayor's office directs CDD in drafting a proposed budget. The Economic Development & Employment Committee and Housing & Community Development Committee jointly review the proposal and propose changes for full Council adoption. The full Council adopts a revised budget, which is again subject to approval by the Mayor or to the Mayoral veto process as provided by City Charter.

Public input to the Consolidated Plan process is encouraged and provided by a citizen advisory board, the Citizens Unit for Participation (CUP). The CUP is the primary body for scheduling public meetings, workshops, hearings, and solicits public comment on both the draft and final Consolidated Plan. Requirements for membership in the CUP are designed to encourage participation by low-and-moderate-income persons, particularly those living in slum and blighted areas; and in areas of Los Angeles where use of CDBG funds are needed. Further, CDD posts the Consolidated Plan on the City's website for public review and notifies the City's network of Neighborhood Councils of related hearings.

It should be noted that the City is currently in process of evaluating alternative allocation methodologies for disbursing CDBG funds to provide further assurance that funds are distributed Citywide in a manner that is proportionate to community needs in each of geographic region. It is my expectation that the Council and Mayor will adopt a more formalized allocation policy and process for use in the 30th Year CDBG allocation process. We are also working on developing a budgeting calendar that allows for increased and timely public input to the Consolidated Plan process. This also should be implemented in the 30th Year Consolidated Plan process.

Los Angeles Community Development Bank

Let me now address the Los Angeles Community Development Bank. The origin and structure of the Bank have been addressed elsewhere; suffice it for me to address a few outstanding points about its history and its role in the community development efforts by the City of Los Angeles.

The Bank was formed under a different mayor and a substantially different City Council, and less than three years after the Los Angeles civil unrest. At the time, it was created as an autonomous economic development bank that would enlist private capital to augment public investment and supply high-risk loans to struggling entrepreneurs in Los Angeles' inner city. The central innovation of the bank was to bring private banking experience and funding to areas traditionally under-served by conventional banking institutions. Unfortunately, its efforts at committing private capital did not lead to substantial private investment in the Bank's projects, and its operations were not, in the end, in compliance with the express goals of its charter regarding the employment of Empowerment Zone residents and investment in Empowerment Zone projects.

Today, and contrary to the perception of some, the Bank is still operating. Its Transition Plan will take it to the end of the calendar year, with funding available for consulting services to finalize the transition over the following year. The City has begun discussions with HUD on the disposition of the remaining $196 million in Section 108 funds that were allotted to the Bank. A report to this effect was presented to the City's Economic Development and Employment Committee, which I chair, on Monday, June 23, 2003.

Blight and underemployment are chronic problems that challenge us at all levels of government. The Bank was conceived in a spirit of grappling with these issues, and the City's experience with the Bank has proven instructive, if difficult. While $50 million of the $196 million is immediately available for use in the City's ongoing economic and community development programs, we are currently proposing to HUD that the full $196 million be available within the original target area, but for broader purposes than the original charter of the Bank allowed. We appreciate the Subcommittee's attention to this matter, and we look forward to continuing to fight poverty and eradicate blight in Los Angeles in partnership and solidarity with our friends in Congress.

Thank you for your consideration of these comments. If you would like to discuss any of these points further please feel free to contact me or my staff members Bea Hsu or Josh Kamensky at (213) 473 7013.

Sincerely,

ERIC GARCETTI
Councilmember, 13th District

NeighborWorks®
CHARTERED MEMBER

Written Testimony of Lori Gay,
President

Los Angeles Neighborhood Housing Services

The Impact of CDBG on our Communities

Submitted to the U.S. House of Representatives
Committee on Financial Services
Subcommittee on Housing and
Community Opportunity

June 30, 2003

Good afternoon, Subcommittee Chairman Ney and Ranking Member Waters. My name is Lori Gay and I am the president of Los Angeles Neighborhood Housing Services (LANHS). I have worked in the community development field for the past 18 years, and have focused my efforts on rebuilding impoverished communities and creating mechanisms for community empowerment and ownership. I am here this morning to talk with you about the impact of the Community Development Block Grant Program on our communities based on the experience of the LANHS.

Los Angeles Neighborhood Housing Services

Let me first say a word about the LANHS, where I have worked since 1990. Since 1984, LA NHS has served over 1.4 million families, developed and rehabilitated over 6,400 housing and commercial units, established 150 block clubs, educated and counseled over 72,000 home buyers, and employed over 200 neighborhood youth, investing more than $1.1 billion back into some of Los Angeles' toughest neighborhoods. LA NHS is the largest, comprehensive provider of affordable homeownership in Southern California, putting 42 families a day on the road to homeownership.

I also serve as Chair, California Organized Investment Network (COIN), former Board Member, Federal Reserve Bank of San Francisco--Los Angeles Branch, The Gas Company--Consumer Advisory Council Member, and Washington Mutual National Advisory Council Member.

Member of the NeighborWorks Network

Los Angeles Neighborhood Housing Services is a member of Neighborhood Reinvestment Corporation's NeighborWorks network. The Neighborhood Reinvestment Corporation strengthens communities and transforms lives across America by supporting innovative local partnerships of residents, businesses, and government, collectively known as the NeighborWorks network, and by advancing broader community development goals. In FY 2002, the NeighborWorks system generated nearly $1.7 billion of direct investment in more than 2,300 lower-income urban, suburban and rural communities nationwide; helped more than 35,000 lower-income families purchase, improve and maintain their homes; provided pre-purchase and post-purchase homebuyer counseling to more than 72,000 families. NeighborWorks organizations also owned and managed over 34,000 rental or mutual housing units. The Corporation provided more than 188,000 contact hours for training participants, and purchased more than $60 million in non-conventional loans through its affiliated secondary mortgage market operation.

Neighborhood Reinvestment acts as an umbrella organization for a national network of more than 223 locally run, 501(c)(3) private/public partnerships. As of September 2002, the NeighborWorks network was operating in more than 2,300 communities in 49 states, the District of Columbia and Puerto Rico. Each locally governed NeighborWorks organization operates a revolving loan fund for non-conventional loans to meet community credit needs that cannot be funded through bank and public loan sources.

Local NeighborWorks® organizations are responsible for setting strategy, raising funds and operating their program. Most provide homebuyer counseling, rehab monitoring, and targeted lending services that complement conventional lending activity.

The NeighborWorks® System integrates public and private support, leveraging federal funding to attract private resources. Private investors have viewed the NeighborWorks network as an increasingly sound investment; in fact, the typical NeighborWorks organization receives most of its funding from private sources and earned fees. Neighborhood Reinvestment does provide a critical financing vehicle to NeighborWorks organizations in the form of equity capital grants for real-estate development and local revolving loan funds. The NeighborWorks® organizations, in turn, use these funds to draw private capital in a variety of ways, including equity and gap financing for home-purchase loans, including down payments and closing costs.

Loan recipients are typically underserved families. Seventy-one percent of loans made through NeighborWorks® revolving loan funds are made to very low- or low-income households, 53 percent to minority-headed households, and 43 percent to female-headed households. Loans carry a rate and term that the borrower can afford to pay back. The NeighborWorks® System is the only national nonprofit network with expertise in designing, originating and servicing small non-conventional loans to lower-income families. These loans help create first-time homebuyers, often prevent mortgage delinquencies, provide money for repairs, and may ensure accessibility for those with disabilities. Generally, the loans offered by local NeighborWorks® organizations provide a blanket of security for neighborhoods of modest means. By designing loans to fill the gap between the capacity of the borrowers and the parameters of conventional lenders, the NeighborWorks® organizations complete transactions that could not otherwise be prudently realized.

The Need for Community Development Block Grants

In low to moderate income communities, many families are challenged by the lack of affordable housing, minimal economic and commercial resources such as

financial institutions, grocery stores and insurance companies. These communities also lack neighborhood facilities and services which enhance the quality of life for families, such as neighborhood parks, community centers and hospitals. In Los Angeles, which is comprised of more than 300 neighborhoods, low to moderate income families are in danger of losing the limited economic resources they already have if CDBG dollars are not available to improve or expand the communities in which they live.

For example, one of the primary barriers to achieving the American Dream of Homeownership for low- and moderate-income people is the lack of accumulated wealth and disposable income. Lower-income renters are at a disadvantage in accumulating cash to cover down payment and closing costs. In order to accumulate wealth, households must consume less and save more or they must receive inheritances or cash gifts from relatives or other benefactors. Lower-income households generally have to spend most of all of their small incomes for basic needs such as shelter, health care and food, leaving little for savings.

The City of Los Angeles has made available some of its CDBG allocation to assist low-income families to achieve the dream of homeownership through providing down payment and closing cost assistance, as well as funds to rehabilitate the newly purchased property. Working in conjunction with local lenders and nonprofit housing counseling groups, the City, has assisted thousands of families to become triumphant homeowners who can assist their neighborhoods in the revitalization process.

LANHS EXPERIENCE WITH CDBG

LA NHS helps low to moderate-income residents achieve and preserve the American Dream by participating in state, county and city programs that benefit these potential and existing homeowners by providing down payment and closing cost assistance, home and rental rehabilitation loans, foreclosure prevention and anti-predatory lending assistance.

LA NHS' Revolving Loan Fund (RLF) was developed to further assist very low to low-income borrowers who needed more assistance than the City' program could provide. As local financial institutions merged and as our targeted communities became more underserved, LA NHS increased direct lending efforts. This significantly increased the number of residents able to combine our funding with available public-sector assistance and conventional loan programs offered by lenders affiliated with Fannie Mae and Freddie Mac. The City of Los Angeles also provided initial funding to the RLF through a CDBG Lump Sum Grant.

LA NHS has also worked with the City of Los Angeles, through the Los Angeles Housing Department (LAHD) to administer the Neighborhood Preservation

Program, HomeWorks! Program and Earthquake Loan Program. All of these programs provide home rehabilitation funding, down payment and closing cost assistance, and gap funding, using CDBG as a funding source to assist low-income families, seniors and the disabled to live in decent, safe and affordable housing. LA NHS also serves on the City' Anti-Predatory Lending Task Force and has provided counseling and loan assistance to families who have been victims of predatory lending.

For example, during 2002, LA NHS worked in partnership with LAHD to assist more than 300 low-income families to achieve homeownership utilizing the HomeWorks! homeownership assistance program. By providing up to $75,000 as a second mortgage at zero percent for 30 years for eligible families, the City of Los Angeles quadrupled the number of families that had been assisted in prior years. In another example, in administering the Neighborhood Preservation Program on behalf of LAHD, LA NHS has been able to assist more than 50 low-income seniors on an annual basis to rehabilitate their properties, improving health and safety code violations, and enhancing their quality of life and health environment. A typical scenario involves LA NHS lending staff providing financial counseling and loan packaging services, construction staff providing project management services and ultimately, our neighborhood resource team helping to develop a block club or neighborhood watch for longer term neighborhood revitalization. For every participant, LA NHS works with the City to provide lead abatement to all properties so that these families are not subjected to the hazards which are prevalent in older, distressed neighborhoods. LA NHS also works to create economic development opportunities by hiring local, minority contractors at every opportunity to participate in the neighborhood revitalization process. All of these programs would not be possible without CDBG funding as a part of the resource base for these families.

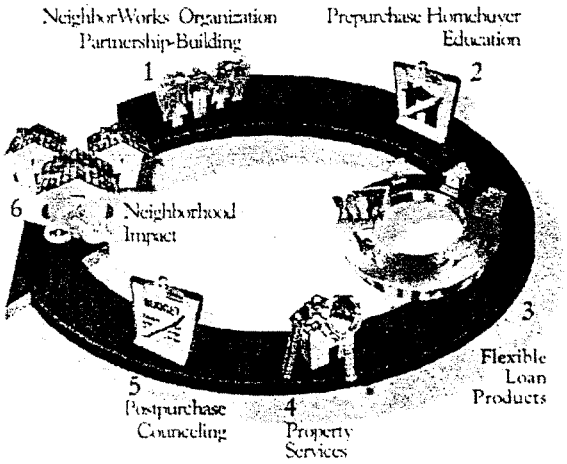
A Comprehensive Neighborhood Revitalization Strategy

LA NHS has utilized a systematic approach since its inception to revitalize distressed neighborhoods throughout Los Angeles. As a member of the national NeighborWorks® network, LA NHS helped to create a system that reaches local families, teaches them about home ownership and home preservation, while reducing the risk of delinquency and foreclosure. This system has been service marked as Full Cycle LendingSM. This system includes pre-purchase homebuyer education, flexible loan products, property services and post-purchase counseling.

Full Cycle LendingSM is a process that benefits all stakeholders in the homeownership arena. Residents can overcome hindrances to ownership as the process is demystified; they save for a down payment and they secure their home and mortgage. Lenders can invest with confidence about an owner's

ability to repay the mortgage. Local government officials can take pride in watching neighborhoods change. More and more homeowners will stake a claim in their communities, enhancing the tax base and contributing to overall community renewal.

The Steps of NeighborWorks Full-Cycle Lending[SM]



1. **Organization Partnership-Building.** The NeighborWorks® organization makes a commitment to the process by creating a partnership of residents, business and local government leaders. A plan for targeted community revitalization is put in place.
2. **Pre-purchase Homebuyer Education.** The homebuyer learns about the purchase process with a supportive organization that helps them clear up credit problems, find a home they want to buy, and coordinate the rehabilitation needs of the property.
3. **Flexible Loan Products.** Local lenders work with the NeighborWorks® organization to create mortgage products the customer can afford -- with features like lower down payments, downpayment assistance, and rehabilitation loans even when the total cost exceeds the value of the home. Property casualty insurance and mortgage insurance companies provide products that allow for the high loan-to-value ratios. The lender can hold the loans in portfolio or package and sell them to Freddie Mac or Fannie Mae's secondary markets. Neighborhood Housing Services of America purchases special-needs first mortgages as well as second- and third-mortgage rehabilitation loans. The secondary markets return funds to the lender, who recycles them by originating additional mortgages to the community.

4. **Property Services.** The NeighborWorks® organization inspects the property, offers technical assistance to the homebuyer and assists with the property's rehabilitation.
5. **Post-purchase Counseling.** The NeighborWorks® organization trains the new owners in home maintenance and budgeting, and supplies early intervention delinquency counseling so that defaults and foreclosures are avoided.
6. **Neighborhood Impact.** Homeowners gain a stake in their communities; lenders reach a significant market in which risk has been mitigated; the tax base increases; and the nonprofit partnership is one step closer to achieving its goal of neighborhood self-sufficiency. Everyone benefits.

NeighborWorks® Full-Cycle LendingSM is a means, not an end. As this comprehensive system is established, home-ownership rates among lower-income families rise, resulting in more stable communities with longer term residents, increased savings and civic involvement for individuals and families, and increased high school and college graduation rates for their children. By stimulating reinvestment in NeighborWorks® communities, Full-Cycle LendingSM is a powerful force that leads to a renaissance in lower-income neighborhoods across America.

LA NHS utilizes the Full Cycle Lending Model to implement its affordable homeownership programs, home improvement loan and neighborhood revitalization programs. LA NHS views the opportunity for neighborhood revitalization as a means to encourage potential homeowners, existing homeowners, local government and the business community to join together to stabilize and strengthen neighborhoods throughout Los Angeles. Utilizing CDBG as one of many sources of financing leverages the opportunities available to families throughout the city.

Profile: Naomi and Jae Beck

Naomi and Jae Beck, originally from Korea, were able to purchase a home through Los Angeles Neighborhood Housing Services (LA NHS). For the last 12 years Naomi has been a nurse at Shriner's Hospital, and Jae manages a garment factory. Neither ever expected they would be fortunate enough to buy a home.

Then Naomi noticed a small ad in the L.A. Times for an introductory seminar being offered by LA NHS for potential first-time, lower-income homebuyers.

Naomi attended a full two-day homebuyer-education class and was told by NHS staff that her family's income and stable work history would qualify them for an affordable home loan.

The Becks began searching for a home and spotted one near their daughters' school. Although previous tenants left the home in terrible condition, the Becks

were excited about the prospect of purchasing in this community. In January 2002, the Becks purchased a three-bedroom, one-and-a-half-bath home in Sunland, CA, in the San Fernando Valley. LA NHS financed the first mortgage, and the city of Los Angeles provided the Becks with a $75,000 soft second mortgage through its **HomeWorks!** program. **HomeWorks!** Encourages residents to purchase in neighborhoods targeted for revitalization by providing funding for renovations and bridging the affordability gap between what a house costs and what the purchaser can afford to pay. Of the $75,000, $25,000 was used to rehabilitate the home.

The Becks' monthly mortgage payment of $1,018 is only $68 more than their previous rent. LA NHS also monitored the rehabilitation of the Becks' home, which included a new kitchen, flooring, bathrooms, garage, windows and doors, paint and a fireplace.

Naomi is active in the Korean community and in February 2002, LA NHS staged a press conference at which the Becks were interviewed by The ***Korean Times, Los Angeles and the Korean Television Enterprises, Ltd.*** Publicity from this event resulted in 400 Korean residents showing up for an introductory seminar on home ownership, and eventually more than 3,200 Korean families attended LA NHS' homebuyer education program. Naomi is now an active volunteer with LA NHS and refers customers on a frequent basis.

Neighborhood Reinvestment projects that the entire NeighborWorks network will provide over $10 billion in down payment and closing cost assistance in Fiscal Year 2003. The average interest rates of these loans is 5.34 percent, with some falling to as little as 1.88 percent, depending upon the borrower's ability to repay.

Conclusion and Summary

Let me close by thanking the Subcommittee for the opportunity to speak about the work of Los Angeles Neighborhood Housing Services and the broader NeighborWorks® Network. The continued assistance of the Community Development Block Grant to further our work is critical. However, merely creating homeowners is not sufficient to stabilize the communities I work in as well as the 2,300 communities served by the NeighborWorks network. Through pre- and post-purchase education combined with financial assistance, the Los Angeles Neighborhood Housing Services and the NeighborWorks Network will continue to create sustainable homeowners who will work to revitalize this nation's communities.

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

FIELD HEARING
JUNE 30, 2003

Community Development Block Grant (CDBG)
The Impact of CDBG on our Communities

TESTIMONY INTRODUCTION

The City of Los Angeles is a dynamic, diverse and complex metropolis, with unique needs and challenges. Its 467 square mile territory is equal to the combined areas of Boston, Minneapolis, St. Louis, Manhattan, Milwaukee, Pittsburgh, San Francisco, and Cleveland. Based on the 2000 Census figures, Los Angeles has:

- 3,694,820 inhabitants (a 6% increase from 1990)
- 816,000 persons in poverty (22.1% of the population)
- 147,516 families below poverty
- 1,512,720 residents were born outside the United States
- Over 140 different languages and dialects are spoken
- 288,496 children (under 18 years old) are below poverty
- 226,813 disabled persons

In addition to these census figures:

- In 2002-2003, the City's population increased by 6 percent (58,948 people, or approximately 20,120 households), there was only a 3 percent increase in dwelling units (5,400) added to the housing stock.
- In the City of Los Angeles, the homeownership rate is 38.6% (renters is 61.4%), compared to the national homeownership rate of 66.2% (renters is 33.8%).
- $ Between 2002 and 2006, the City is at risk of losing 2,400 affordable rental units per year, further exacerbating the inadequate housing development.

The Census Bureau also estimates that the City of Los Angeles' undercount was 76,800 people, mostly minorities. It is estimated that the City loses $242.76 in CDBG and state funds for every missed person. When multiplied over the 10-year period that the census data is used, the City of Los Angeles will lose over $180 million in funding, of which over $60 million is lost CDBG.

This is the setting for the City Community Development Block Grant (CDBG) Program.

Questions concerning Community Development Block Grant in general

No. 1 What community development activities do you provide to revitalize neighborhoods and enhance economic development? What actions do you take to provide improved community facilities and services?

The City provides CDBG funds yearly for community development activities that revitalize neighborhoods and enhance economic development. A list of the eighty (80) funded projects can be found on Attachment I. The 2003-2004 program year funding levels and activities for the following programs includes:

- Public Services and Community Based Development Organizations, Public Services - $41,070,382

Highlights of the improved services, the City provides through use of CDBG funding, include the following programs: Human Services Self-Sufficiency Delivery System, Homeless Shelter and Services, LA's BEST, Youth and Family Centers, Aging Services Delivery System, Domestic Violence Shelter Operations, Supplemental Youth Recreation, and Youth Nutrition and Enrichment.

It is important to note that the City is currently operating under a waiver of the 15 percent cap on Public Services. The 25 percent cap expires at the end of the current program year. Reversion to the 15 percent cap would represent a 40 percent reduction in funds available for Public Services funded activity. Without an extension of the 25 percent cap, $11,229,844 of the City's Public Services are in jeopardy. Extension of the waiver is the City's top CDBG priority.

- Neighborhood Improvements - $9,251,504

Neighborhood improvement activities include: Alley Closure Program, Code Enforcement, Cornfields, Nuisance Property Abatement, Neighborhood Empowerment Action Team, Sidewalk and Tree Planting, and Neighborhood Block Grant program.

- Economic Development - $7,812,149

Programs which enhance economic development include: Business Assistance Center (Growth Business, Retail Business, and Microenterprise/Entrepreneur), Northeast Business Assistance Centers, Community Financial Resource Center, Pacoima Community Development Credit Union, Brownfields Development Opportunities, Westlake Commercial Façade and Signage, Commerce Avenue, Marlton Square, Fresh Foods Access, and Sidewalk Vending.

- Public Facilities - $5,873,178

The City of Los Angeles works to improve community facilities and services through property acquisition, renovation and new construction through CDBG funds. Facility

improvement projects for the 2003-2004 program year include: Neighborhood Facilities Rehabilitation, development of parks (Daniels Field Skate Park, Koreatown Pocket Park, Hope and Peace Park), and construction of public facilities (East Valley Multipurpose Center for Seniors, Homeless Drop-In Center, Temple Beverly Recreation Center)

No. 2 How do you develop your consolidated plan? For example, who writes it and what public input is received? How is it evaluated to see if it's objectives are met, and what are the steps to modify it in light of these findings?

Development of the Consolidated Plan for the City of Los Angeles is conducted by the Community Development Department (CDD). CDD prepares the Consolidated Plan under the direction of the Mayor's Office, in conformance with HUD Consolidated Plan regulations, and compiles contributions of project descriptions, demographics, tables, charts, and project data from over nineteen (19) city departments and related city agencies into a cohesive document. To further depict the City's strategies and goals for HUD funds, illustrative graphs, tables, charts and statistical data are included in the Consolidated Plan.

Public Participation
Public input is encouraged and provided by a citizen advisory board, formally known as the Citizens Unit for Participation (CUP). It is the primary body for scheduling public meetings, workshops, hearings, and solicits public comment on both the draft and final Consolidated Plan. CUP plays an important role in providing citizen review on the draft and final Consolidated Plan, substantial amendments, and the Consolidated Annual Performance and Evaluation Report (CAPER). The CUP also provides citizen input on projects funded through reprogramming of CDBG funds, and is responsible for arranging and chairing public meetings on the Consolidated Plan.

The membership of the CUP is designed to encourage participation by low-and-moderate-income persons, particularly those living in slum and blighted areas; and in areas of Los Angeles where use of CDBG funds are needed. There are now eighteen members of the CUP, including one member-at-large. Council Members appoint CUP members to represent their Council District. The CUP meets monthly and its meetings are publicized on CDD's Home Page, at www.cdd.lacity.org/cup.

Additional public participation processes also include:

- Web posting of the Consolidated Plan,
- Notification to Neighborhood Councils (72 currently certified) of CDBG and Consolidated Plan actions,
- The CUP sponsored regional meetings both before and after the development of the projects recommended for the Consolidated Plan,

- Public Hearings at the City Council Committee's consideration of the Consolidated Plan and any substantial amendments (audio broadcast of Council Meetings is available by phone or the Internet), and,
- City Council meetings (broadcast on television and audio broadcast of Council Meetings is available by phone or the Internet).

Evaluation of the Consolidated Plan is accomplished by:

- The Consolidated Annual Performance and Evaluation Report (CAPER) - The CAPER measures program and project performance against quantitative and qualitative goals established in the Plan. The CAPER is provided to the Mayor, and City Council, and also made available to the public for review.

- Quarterly Reports - City departments and agencies undertaking Consolidated Plan funded activities report accomplishments quarterly to CDD for HUD's Integrated Disbursement and Information System (IDIS) data base. All newly approved projects identify goals and milestones in a Project Expenditure Plan which is monitored quarterly.

Modifications to the Consolidated Plan are considered when a project is not progressing as planned. The City Council and the Mayor's Office will determine if funds will be reprogrammed from one project to support another project. The City has initiated several major reprogramming actions in the past two years to better utilize available funds.

All project activities proposed for reprogramming must also undergo a formal "project readiness review" evaluation to determine if proposed activities are fundable and capable of completion in a timely manner.

City projects funded through the Consolidated Plan are under continuous review.

No. 3 What would be the advantages or disadvantages of state, local or regional administration of the CDBG program?

There are several advantages of local administration. Local control provides flexibility, within federal guidelines, to meet the unique needs and challenges of diverse communities.

No unit of government better understands the dynamics and complexities of the City than its local government. California has a long tradition of "home rule" when it comes to community development. The role of the state is one of enabling local government rather than collaborating. No regional agency in southern California focuses on community development issues.

Los Angeles, the second highest populated city in the nation, will continue to have a significant voice in national issues. Under City control, an equitable distribution of funds is ensured by the Mayor's Office and the fifteen elected City Councilmembers.

The City of Los Angeles enjoys a constructive relationship with HUD's area office. We see no benefit to interjecting another unit of government into the process.

No. 4 How is the decision made to dispense funds from CDBG grant? How are the subgrantees monitored to ensure the funds are used as intended?

Dispensing CDBG Funding
The Mayor and City Council make the final funding decisions related to the CDBG grant. The funding decision is made after an application phase, where City departments and outside agencies apply for grants. Annual programs from prior years must reapply every year. The Mayor's Office reviews the applications and releases its funding recommendation, based upon the Mayor's goals, for public review.

The Mayor makes funding recommendations based on the Consolidated Plan goals. The Mayor's Consolidated Plan goals for 2003-2004 are:

- Increase public safety;
- Increase access to affordable and decent housing;
- Promote the development of our youth;
- Secure our economic future, and
- Protect and assist the City's special needs populations.

After public review and comment (described earlier), the Mayor's CDBG funding proposal goes to the Housing and Community Development and Economic Development and Employment Committees of the City Council. The joint committee holds hearings and works with the Mayor's Office to make changes to the Mayor's proposal, after which, the proposal is sent to the full City Council. The full City Council holds hearings and makes changes to the proposal. A final proposal is developed and approved by the City Council and the Mayor.

It is important to note that the City is currently evaluating alternative allocation methodologies for disbursing CDBG funds across the City. It is expected that a more process for allocation will be used for the 30th year CDBG allocation process.

Once the allocation process is complete, specific projects are funded through a competitive bid process, more commonly known as a Request for Proposal (RFP). Published announcements inform the public of the available funds, funding objectives, criteria for applicants, and the pre-proposal conferences to be held throughout the City. An RFP process is often used to fund projects for public services, neighborhood facilities, housing and economic development.

Monitoring

The Los Angeles Community Development Department applies a comprehensive and complex monitoring system to evaluate projects in three main areas: performance goals, program objectives (clients served, client demographics, services provided), and fiscal performance. The City analyzes deficiencies, feedback and updates on a continuous basis.

The City Controller's Office and the City Administrative Officer periodically conduct in-depth audits and performance reviews of grant programs.

Additionally, the federal General Accounting Office, HUD, DOL and other grantor conduct periodic audits, monitoring visits and performance reviews.

Questions concerning the Los Angeles Community Development Bank

1. How does, or did, the LACDB obtain and disburse its funds?

Funding of the Los Angeles Community Development Bank (LACDB) has primarily been provided by the U.S. Department of Housing and Urban Development (HUD) with Section 108 Loan Guarantees, Economic Development Initiative (EDI) Grants, and Community Development Block Grant (CDBG) entitlement funds. While some private funds have been secured by LACDB, the full partnership with private sector lending institutions originally envisioned for the bank has never materialized.

Pursuant to the December 1994 Notice of Fund Availability (NOFA), HUD approved $250 million in EDI and Section 108 funds for the Los Angeles "Supplemental Empowerment Zone" target area, with $200 million for City portions and $50 million for County portions of the Empowerment Zone. The City received an additional $200 million in Section 108 Loan Guarantees to be used in eligible areas described in the application, and appropriated $5 million of its CDBG entitlement for administrative costs and reserves.

The procedures for LACDB obtaining and disbursing funding are specified in the Comprehensive CDB Agreement between the County of Los Angeles, the City of Los Angeles and the LACDB; as well as applicable HUD instructions and guidelines, and City and County accounting policies and procedures.

In accordance with the Comprehensive Agreement, the LACDB is required to submit an Annual Business Plan to the City and County for review and approval with a copy to HUD. Among other things, the Plan must contain a CDB Budget, performance criteria data, reconciliation of actual financial results, and any other amendments, supplements, or modifications to the previous CDB Business Plan. The Annual Business Plan is approved by LACDB's Board of Directors on behalf of LACDB, the Los Angeles County Board of Supervisors on behalf of the County, and the Los Angeles City Council, with the concurrence of the Mayor, on behalf of the City.

The Comprehensive Agreement also specifies fund distribution procedures. With respect to CDBG and EDI Grant funds, LACDB submits a Notice of Grant Distribution Request to the Authorized Representative of the City or County, as applicable. Upon determination that the Notice of Grant Distribution Request is within budget and applicable requirements, the Authorized Representative requests withdrawal of federal funds from the City or County federal line of credit established by HUD for the EDI Grant, and utilizes appropriated funds for the CDBG funding. HUD distributes the funds to a City or County custodial account in accordance with respective Grant Agreements, and from these accounts, funds are disbursed to the LACDB.

The Comprehensive Agreement, as well as HUD's Contract for Loan Guarantee Assistance and Promissory Notes, describe requirements associated with Section 108 loan funds. These funds are drawn directly by the LACDB from HUD, with funds

disbursed to the Collateral Agent in accordance with HUD's Section 108 loan requirements.

2. As an independent Organization, to whom is/was it accountable?

The LACDB, although not a commercial bank, was originally proposed as an innovative project to bring private banking experience and funding to areas traditionally underserved by conventional banking institutions. Therefore, rather than the usual process of the City and/or County making federal funding available and directing nonprofit service providers, the LACDB was intended by both HUD and others to be a nontraditional approach to serving low income communities through the creation of an independent lending institution with access to both federal and local, public and private resources.

Moreover, as documents concerning LACDB operations were being developed, the City was cautioned by HUD, the federal funding entity, to make every effort to assure that the independence of LACDB is not compromised." Accordingly, the LACDB was granted unprecedented autonomy to make loans and investments in underserved communities.

In accordance with the Comprehensive Agreement and as a result of subsequent experiences and audits, steps were taken by the City and County to apply reasonable oversight to LACDB activities in the following ways:

- Reviewed, recommended changes, and approved or disapproved of the LACDB Annual Business Plans;
- Reviewed, recommended changes, and approved or disapproved of LACDB requests for funding in accordance with Comprehensive Agreement, federal guidelines and instructions, and the City policies and procedures;
- Contracted with an independent auditor for quarterly financial and program compliance reviews of LACDB;
- Worked with LACDB and HUD to address operational questions and audit findings;
- Organized quarterly City/County LACDB Oversight Committee meetings, including discussion of LACDB management and outside auditor reports;
- Reviewed and discussed annual financial and compliance reports, and attended annual public meetings; and,

- Organized discussions between LACDB, the Empowerment Zone Oversight Committee, City Workforce Development staff and Work Source Center community-based agencies to facilitate program success.

3. ***It is our understanding that the LACDB is no longer operational. What happened to the projects that it was funding? What will happen to any unobligated funds that remain?***

Current Operating Conditions

The LACDB is still operational, and it is operating in accordance with its last Annual Business Plan, entitled the Transition Plan of the Los Angeles Community Development Bank.

More specifically, the City Council and the Mayor disapproved of LACDB's 2002 Business Plan due to issues including:

- LACDB compliance with the required use of funds for loans and investments to business located in the Empowerment Zone;
- LACDB compliance with required hiring of Empowerment Zone residents; and,
- Insufficient funds from the City's EDI Grant or other sources for: 1) administrative needs; 2) adequate security for high-risk loans in the existing portfolio; and 3) adequate security for the remaining supplemental Section 108 authority.

Consequently, the City Council and Mayor directed City staff to work with the LACDB on an approach to LACDB plans and operations through calendar year 2003 that would allow the LACDB to:

- Pursue improvement of LACDB's financial condition;
- Help meet job creation and other regulatory, legal, and contractual responsibilities; and,
- Transition to sustainable self-sufficiency or the winding up of LACDB operations of functions by another entity.

The LACDB has developed a transition plan that contains several actions, including:

- Solicit and evaluate proposals for outside parties to acquire LACDB's venture capital portfolio;
- Request and evaluate proposals for outside parties to perform any or all of the following: 1) service loan portfolio; 2) monitor job compliance; and 3) purchase loan portfolio;
- Assess debt obligations to HUD with respect to borrower repayments, and propose means to best meet financial obligations;
- Develop processes and procedures for addressing accounting, asset, and records management issues;
- Adjust staffing levels according to operational needs; and,
- Work with the City, County and HUD on legal and operational documents and processes for the transition.

Funded Loans/Investments
There are approximately 60 LACDB loans with balances of over $16 million for which payments are still being collected. There are also approximately 30 loans that have been written-off, but for which LACDB is still seeking recovery from the remaining loan balance that totals over $5 million. Additionally, there are 7 open venture capital companies, with LACDB investments valued at over $7 million. Servicing and monitoring these funded loans and investments to ensure that they meet financial and other legal obligations remains a priority of the LACDB and the City.

Unobligated Funds
There remains over $196 million in Supplemental Section 108 loan guarantee authority that is currently allocated to LACDB. Since prior history, current reserves, and future projections, indicate that the LACDB will be unable to prudently loan these funds in the time remaining for City-supported LACDB operations, the City has requested HUD to reallocate that loan authority as follows:

- Up to $50 million to be used in accordance with the original HUD Section 108 Loan Guarantee Program Application. This City is moving forward on approval of this portion so that the funds may be immediately available; and,

- The full amount of remaining Section 108 loan authority (approximately $146 million plus the aforementioned $50 million for a total of $196 million) is also being recommended for use in the geographic areas described in the original Supplemental Section 108 application. However, the City is recommending that this lending authority be used for broader CDBG national objectives and eligible purposes than those originally intended for this funding (e.g., elimination of slum and blight; provision of goods and services; creation of mixed-use or housing projects that help address community needs and development).

Because the second action requires an amendment to the original Supplemental Section 108 application, the City proposes to proceed immediately with the $50 million reallocation described above, and then include this amount with the remaining $146 million for a total of $196 million in the amendment.

HUD has been favorably disposed toward the City's request, but has required that the uses of funding be consistent with original Section 108 application or amended appropriately. Additionally, the Los Angeles Empowerment Zone Strategic Plan application and the City Consolidated Plan may require modification to directly use the funds already allocated to the City of Los Angeles, but currently earmarked for LACDB, for these activities.

It is important to note that although the LACDB was created as a unique experiment in economic development, the City remains committed to the mission of providing capital and improving conditions in the affected communities in need. The map, Attachment II, indicates areas that qualify for the aforementioned remaining Supplemental Section 108

loan authority. These areas include the City Empowerment Zone and the areas of the City meeting poverty qualifications delineated in 24 CFR 570.208 (a) (4) (iv-v).

Clearly, this geographic area is large and the need for community development great. However, we believe that affordable and effective loan programs can help the City meet this challenge. There have been lessons learned from the LACDB experience, including the need for:

- Practical program requirements

  For example, LACDB required that borrowers must have been turned down for a loan at least once by a commercial bank before applying for a loan with LACDB, which made LACDB lending more risky and repayments more challenging than in typical financing situations. Further, there were federal requirements with respect to job creation numbers and income level that did not consider the situations of struggling borrowers and employment demographics in way that would ensure business and program success.

- Adequate financial/compliance controls

  As indicated above, structuring a publicly-funded entity with the independence allowed LACDB in areas of lending, investing, contracting, and conducting operations did not fully produce desired or required outcomes. Moreover, this independent arrangement has left the City with needing to address resulting financial and contractual obligations, regulatory and legal issues, and public image and service matters for which it was not involved or responsible.

- Reliable private sector involvement

  The LACDB was formed with commitments by financial institutions to co-lend with LACDB. However, the commitments were non-binding, and the public-private partnerships did not materialize as envisioned. Consequently, LACDB was left with riskier loans and poorer results than would otherwise have been expected with private capital participation.

- Strategic utilization of resources

  LACDB made loans and investments on a case-by-case basis. However, in order to have effective outcomes for individual borrowers and larger communities, there ought to be consideration of strategies to make use of federal funding in ways that are integrated into City goals, priorities, and development plans.

  This lending authority can be used effectively in concert with other City programs such as federal, state, and local tax incentives; business assistance and Work Source job placement centers; and Industrial Development/Empowerment Zone bond financing. The City is undertaking a number of economic develop initiatives

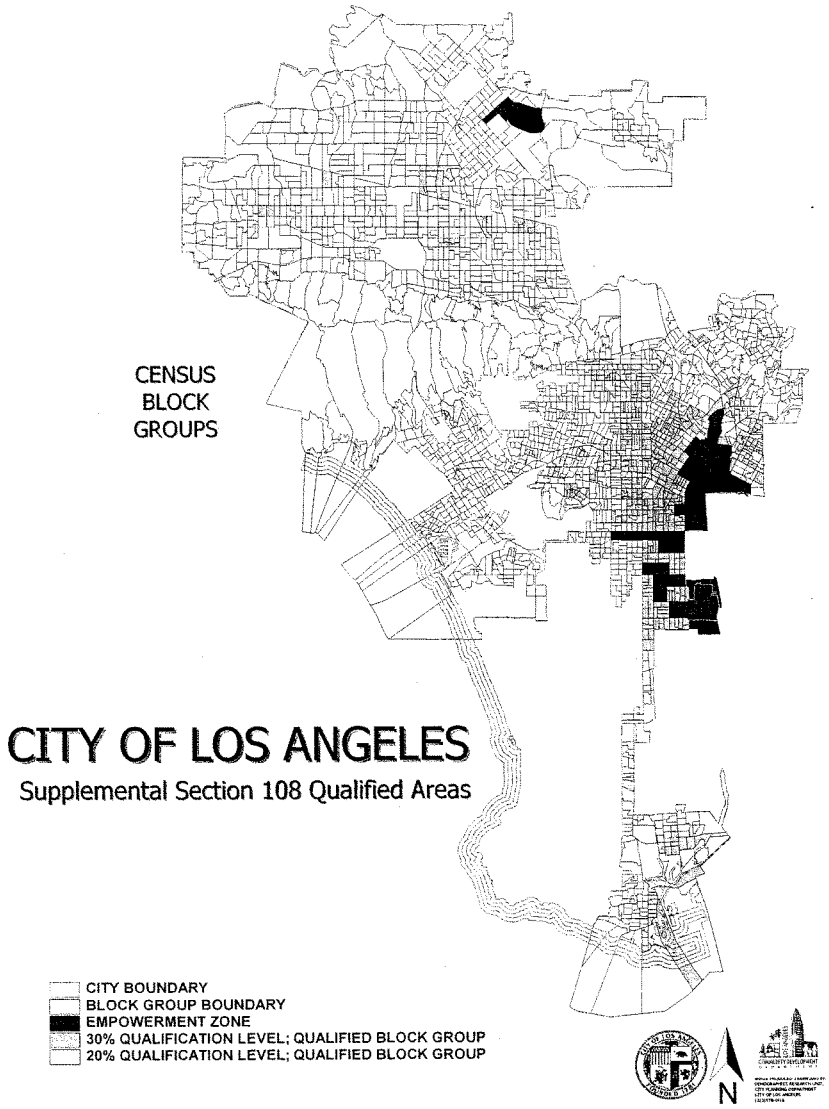
that will further guide these investments. The area and population to be served are essentially the same that LACDB was chartered to serve.

City of Los Angeles
Approved 2003-2004 CDBG Budget

#	PROGRAMS/PROJECTS	CDBG
1	Citywide Home Secure Program	599,908
2	Handyworker	4,085,000
3	Citywide Housing Rehabilitation	6,390,819
4	Nuisance Abatement - City Attorney PPRT - Falcon	1,035,158
5	Section 108 Debt Service	1,955,976
6	LAHSA Respite Center for Homeless Families and Women	800,000
7	Neighborhood Facilities Rehabilitation	1,411,100
8	Daniels Fields Skate Park	150,000
9	East Valley Multipurpose Center for Seniors	350,000
10	Garvanza Skate Park	510,000
11	Koreatown Pocket Park	170,000
12	Hope and Peace Park	50,000
13	Toberman Capital Development Program	150,000
14	Alley Closure Program	300,000
15	Code Enforcement-Citywide PACE	889,235
16	Nuisance Property Abatement-Demolition	200,000
17	Neighborhood Empowerment Action Team	2,027,592
18	Sidewalk and Tree Planting	1,950,000
19	Neighborhood Block Grant Program	3,698,496
20	Brownfields Development Opportunities	1,000,000
21	Business Assistance Centers - Growth Business	300,000
22	Business Assistance Centers - Microenterprise/Entrepreneur	1,500,000
23	Business Assistance Centers - Retail Business	532,000
24	Community Financial Resource Center	180,000
25	Fresh Foods Access Program (Farmer's Market)	155,149
26	Marlton Square Project	1,750,000
27	Housing Development - New Construction	6,162,213
28	Housing Development - Acquisition/Rehabilitation	4,108,142
29	Aging Services Delivery System	1,776,354
30	AIDS Prevention	1,077,500
31	Central City Neighborhood Partners (Youth Fair Chance)	602,664
32	Domestic Violence Shelter Operations	1,393,330
33	Housing Authority - Community Service Centers	1,025,904
34	Human Services Delivery System	9,276,109
35	LAHSA Beyond Shelter Assistance for Skid Row Families	137,166
36	LAHSA Central City East Public Sanitation	312,000
37	LAHSA Homeless Emergency Shelter & Services	2,288,212
38	LAHSA Rent to Prevent Eviction	250,000
39	LAHSA Winter Shelter Program	95,333
40	LAHSA Year Round Emergency Shelter - Hollywood	400,000
41	LA's Best (Better Educated Students for Tomorrow)	2,000,000
42	Library Community Jobs Program	200,000
43	Operation Clean Sweep - Public Works Board	1,080,700
44	South Central Youth Opportunities	1,140,992
45	Summer Zoo Camp Scholarship Program	111,300
46	Supplemental Youth Recreation Program	1,550,735

City of Los Angeles
Approved 2003-2004 CDBG Budget

#	PROGRAMS/PROJECTS	CDBG
47	Youth and Family Centers	2,676,868
48	Youth Nutrition and Enrichment Program - Off Track	1,200,693
49	CBDOs - Aging Services Delivery Systems	562,702
50	CBDOs - Clean and Green Job Program	1,034,300
51	CBDOs - Day Laborer	1,099,939
52	CBDOs - Domestic Violence Shelter Operations	1,863,238
53	CBDOs - Human Services Delivery System	2,976,343
54	CBDOs - LA Bridges Program	275,000
55	CBDOs - LA Youth At Work	100,000
56	CDBOs - Operation Clean Sweep	180,000
57	LAHSA Special Activities by CBDOs	4,333,000
58	AIDS Policy Planning	896,063
59	Citizens Unit for Participation	50,000
60	Computerized Information Centers - Dept. on Disability	214,854
61	Fair Housing	500,000
62	General Program Administration - CDBG - CDD	15,014,979
63	General Program Administration - CDBG - Other Departments	1,331,229
64	General Program Administration - LAHD - CDBG & HOME	1,925,000
65	General Program Administration - LAHSA	1,150,000
66	Planning Department	244,367
67	Shelter Partnership - Technical Assistance	156,874
68	Repayment of Reprogrammed Projects	3,250,657
69	UDAG Swap for LA's Best	1,665,000
70	Proyecto Pastoral at Dolores Mission	50,000
71	Cornfields	186,181
72	Delano Recreation Center	250,000
73	Temple Beverly	2,032,078
74	Commerce Avenue	80,000
75	Northeast Los Angeles Business Assistance Center	75,000
76	Pacoima Community Development Credit Union	200,000
77	Sidewalk Vending	75,000
78	Westlake Commercial Façade & Signage Program	300,000
79	Elysian Park Master Plan	50,000
80	Affordable Housing Trust Fund	500,000
	Total Funds Programmed	**113,628,452**


CENSUS
BLOCK
GROUPS
CITY OF LOS ANGELES
Supplemental Section 108 Qualified Areas
CITY BOUNDARY
BLOCK GROUP BOUNDARY
EMPOWERMENT ZONE
30% QUALIFICATION LEVEL; QUALIFIED BLOCK GROUP
20% QUALIFICATION LEVEL; QUALIFIED BLOCK GROUP
N

Testimony of Carlos Jackson, Executive Director, Los Angeles County Community Development Commission and Housing Authority of the County of Los Angeles, before the House Financial Services Subcommittee on Housing and Community Opportunity

June 30, 2003

Good morning, Chairman Ney and Ranking Member Waters:

I am here today to provide testimony on behalf of Los Angeles County in three areas: the Community Development Block Grant (CDBG) Program, the Section 108 Loan Guarantee Program, and the status of the Los Angeles Community Development Bank. I appreciate the opportunity to provide an oral statement and written testimony about these programs, which are of great significance to our communities.

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

Overview

Now entering its 29th year, the CDBG Program is one of our nation's most successful domestic programs. Los Angeles County operates the largest Urban County CDBG program (Urban County) in the nation and receives an annual allocation of approximately $38 million. Participating in the Urban County program are 48 of the 53 cities with populations of 50,000 or less, as well as the unincorporated areas governed by the County Board of Supervisors. The Urban County population totals almost 2.2 million, 1,218,230 of which constitutes the participating cities populations, and the balance represents the unincorporated areas.

Since 1975, it has been the County's policy to allow cities, and their respective city councils, to identify projects and implement them as they see appropriate, provided CDBG regulations are met. For the unincorporated areas, the CDC administers the CDBG program.

The U.S. Department of Housing and Urban Development (HUD) requires that grantees meet two (2) performance standards: overall provision of benefit to low- and moderate-income residents, and the timely expenditure of funds. The County has exceeded both of these performance standards in the following manner:

- The County consistently expends 90 percent or more in CDBG funds to residents of low- to moderate income, while the CDBG program requirements require that we expend at least 70 percent of the CDBG funds to benefit these residents. For the year ending June 30, 2002, the County overall expended 94 percent toward low- and moderate-income benefit activities: participating cities expended 92.71 percent and unincorporated areas expended 93.59 percent.

- For the past 10 years Los Angeles County has met or exceeded this timely performance measurement requirement. As of April 30, 2003, our drawdown rate was .95 percent well below the 1.5 percent requirement (HUD requires that grantees have no more than 1.5 times their annual allocation unused 60 days prior to the end of each fiscal year).

Allocation Method

For this testimony, the CDC has been asked to provide information on the CDBG allocation method. As indicated earlier, in 1975, the Board of Supervisors adopted the HUD allocation formula in order to fairly distribute CDBG funds to the unincorporated areas and participating cities. The CDC utilizes HUD's formula to distribute funding to its participating cities and the five (5) Supervisorial Districts for allocation within the unincorporated area. This formula takes into account population, overcrowded housing, and poverty. However, in comparison, Urban Counties vary on how they distribute their funding. Counties such as San Diego and Orange, openly accept applications and proposals for funding from interested organizations, including non-profit organizations and participating cities. Funding is then awarded on a competitive basis.

Using this formula allocation, the County's CDBG entitlement is distributed almost equally among the participating cities and Supervisorial Districts. Participating cities are allowed to determine the type of projects to fund, as well as the funding levels for their specific programs. Further, the cities are required to meet all eligibility requirements and conduct public outreach prior to obtaining final approval from their respective city councils. The CDC administers the CDBG program on behalf of the Supervisorial Districts and hosts 16-community meetings throughout the County to obtain public comments on community development needs. The National Association of Counties (NACo) recently recognized the success of the community meeting format, by issuing its 2003 Achievement Award to the CDC. These comments are forwarded to each Board office and projects are reviewed and approved based upon each Office's needs. Examples of funded activities include:

- Economic development such as neighborhood revitalization and business loans;
- Affordable housing including direct homeownership and rehabilitation assistance;
- Public services including youth/senior programs and graffiti removal; and
- Public improvement projects such as street and sewer improvements.

Specifically, for neighborhood revitalization and the enhancement of economic development in the unincorporated areas, we engage in the following activities:

- Façade improvements through the Community Business Revitalization Program;
- The provision of technical assistance to businesses in specific target areas, including Athens;
- Neighborhood improvement and beautification programs; and
- Micro business loans.

To provide improved community facilities, CDBG funds are allocated for park improvement projects, and community center improvements.

Public Services

There is a great need in Los Angeles County for the provision of public and social services, however the funding is extremely limited. Therefore, many needs go unmet. Beginning tomorrow, the County will enter its last fiscal year prior to the rescission of the public service cap from 25percent to 15percent. This will result in a decrease of available public service authority from $9,494,520 at 25 percent to $5,696,712 at 15 percent. Since the initial waiver, which was approved by Congress in 1992 to address the underlying causes of the 1992 Civil Unrest, the Board of Supervisors has consistently gone on record in requesting continued extensions to the cap. More recently the Board has strongly requested a permanent extension of the cap to the 25 percent level, in order to address the emergent needs in Los Angeles County. As we are experiencing diminishing resources in the area of public and social services, the necessity for a permanent waiver is more critical than ever in assisting us to meet those needs.

Public service authority is utilized in the County to fund the following type of programs:

- Meals for seniors;
- After school recreation programs for youth;
- Tutoring and mentoring programs;
- Healthcare for seniors, adults and children;
- Drug intervention programs; and
- Domestic violence counseling.

Compliance Monitoring

As the administrator of the Urban County CDBG program, the CDC is responsible for ensuring compliance with all federal regulations. In order to accomplish this, the agency conducts year-round performance reviews of its Participating Cities, County departments, Community Based Organizations (CBO's) and District projects. Listed below are some examples of the compliance monitoring that is implemented annually:

- Accounting System Reviews – conducted for all new CBO's prior to funding to ensure that there are appropriate fiscal and accounting systems;
- Desk Top Reviews – conducted each quarter to identify early warning signs around program and expenditure progress; and
- Joint and Individual Field Reviews – conducted to review fiscal, programmatic and expenditure compliance; these review are conducted annually for every CBO.

In an effort to ensure that all agencies are aware of regulations and implementation requirements, ongoing technical assistance is provided on an as needed and mandatory

basis. Approximately 12 training sessions are scheduled per year. Examples of the types of training are listed below:

- Financial training;
- Sub-recipient monitoring; and
- Federal labor compliance.

Planning Documents

HUD requires the preparation and submittal of a five-year strategic Consolidated Plan and an annual Action Plan, both of which identify the types of projects proposed for funding, based on input from residents, the Supervisorial District offices and our community development partners. Both documents were approved by the Board on May 27, 2003, and submitted to HUD. The Consolidated Plan was prepared by CDC staff in conjunction with a consultant, who assisted in obtaining citizens views on community, economic and housing development needs within the County. Approximately 4,500 surveys were received from unincorporated areas and participating cities while eight (8) community meetings were also held with County residents. Proposed projects for participating cities and the unincorporated areas are consolidated into the annual Action Plan that is submitted to HUD for approval.

While the 5-year plan proposes long-term projects, the Action Plan serves to outline annual projects that address our community development priorities. The 5-year plan is used as an evaluator to see if program objectives identified are met. Upon annual review, if the program objectives identified in the 5-year plan are not being met, amendments are made to the Consolidated Plan. Additionally, the CDC regularly submits the Consolidated Annual Performance and Evaluation Report (CAPER) to HUD where we report on the annual performance of the fiscal year projects that actually received funding. We use this report as a mechanism to identify whether or not needs were meet, and also to modify future funding decisions.

Local Administration of the CDBG Program

In the future, should discussions surface regarding the appropriateness of transferring the CDBG program to State administration, we would strongly oppose this action. It is advantageous to keep administration of the CDBG Program at the local level. Any removal of local government from the administration and implementation of the program would impede the identification of local needs and the swift delivery of services to County residents. This can be evidenced by the fact that Urban Counties are expending CDBG funds in a very timely fashion. As of June 2, 2003, only nine (9) out of 159 Urban County grantees had untimely expenditures.

SECTION 108 LOAN GUARANTEE PROGRAM

I am disappointed by the Bush administration's proposal to de-fund the Section 108 Loan Guarantee Program (Section 108). It is our understanding that HUD only intends to carryover the remaining balance of funding authority allocated for this current year.

This program has been a useful tool in facilitating community and economic development activities. Because of limited funding, all tools available to cities and unincorporated areas are used to meet constituents' needs.

The Section 108 program is a critical tool for urban revitalization. Elimination of the program would further limit local governments ability to economically revitalize their communities.

Current Status

The CDC's total Section 108 Loan Portfolio is $38,045,000, which comprises eight (8) loans. One additional loan for $2.5 million is pending for the City of San Fernando pool facility, currently in review.

Our current portfolio consists of the following:

- City of Azusa - Business Revitalization in the amount of $2,435,000;
- City of Culver City - Senior Center in the amount of $2,020,000;
- City of Maywood - Community Center in the amount of $2,600,000;
- City of Signal Hill - Community Center in the amount of $280,000;
- City of Claremont - Senior Center Expansion in the amount of $410,000; and
- unincorporated West Altadena - Site Assembly for Retail Center in the amount of $2,300,000.

In addition to the six (6) loans listed, the following two (2) loans are examples of how the Section 108 program has been utilized to not only facilitate economic development and job creation, but also to eliminate brownfields.

- City of Santa Fe Springs Golden Springs Development Park, consisting of $20 million Section 108 this fiscal year as well as $1.75 million in Brownfields Economic Development Initiative (BEDI) and $2 million in Economic Development Initiative (EDI). This project will create 679 low- to moderate-income jobs.
- City of West Hollywood Gateway Retail Project, consisting of $8 million Section 108 loan next fiscal year and $2 million in BEDI dollars, which will create 750 jobs.

We compliment HUD's efforts to further streamline the approval process. Despite the negative comments regarding the program, our experience has been very positive. We have not had any defaults nor have we encountered any compliance concerns.

LOS ANGELES COMMUNITY DEVELOPMENT BANK

Overview

In the period immediately following the civil unrest of April of 1992, groups of organizations from throughout the Los Angeles area met to plan and organize

emergency relief needs and ultimately, to deal with the underlying issues that many believed were the direct causes of the civil unrest. The result was a joint County- City application for the designation of a target area under the federal Empowerment Zone Program. This effort was unsuccessful. In 1994, HUD responded to the County and City proposal with an alternative – the designation of a Supplemental Empowerment Zone and the creation of a new kind of financial institution to be known as the Los Angeles Community Development Bank (LACDB).

The Los Angeles Community Development Bank was a joint effort between the County and City of Los Angeles and HUD. The creation of the LACDB was innovative and established for the purpose of utilizing Economic Development Initiative (EDI) grant funds and HUD Section 108 loan guaranteed funds through an independent financial institution, the LACDB, to target substantial investments to create jobs, economic opportunity and financing for economic development projects and to serve as a catalyst to revitalize our most distressed neighborhoods.

On June 27, 1995, the County Board of Supervisors approved a Comprehensive Agreement, among the County, the City of Los Angeles (City) and the Los Angeles Community Development Bank (LACDB). The Comprehensive Agreement instituted a new source of funding through the LACDB for businesses in areas that were designated as a supplemental federal Empowerment Zone by HUD.

Of the 41 census tracts in the Empowerment Zone, 36 census tracts are in the City of Los Angeles. The County has direct jurisdiction over the remaining five (5) census tracts, in the County unincorporated areas of Willowbrook and Florence; Florence is located in the 35th Congressional District. These areas are referred to as the County portion of the Empowerment Zone.

The Empowerment Zone program in the County areas was funded with $25 million of HUD Section 108 Loan Guarantee Program and a companion amount of $25 million of Economic Development Initiative (EDI) grant funds. The County designated $30 million of these funds for use by the LACDB for loans in the County portion of the Empowerment Zone. The County set aside the remaining $20 million of these funds for use in an Economic Development Fund (EDF) for future Empowerment Zone projects such as the expansion of facilities related to, or complementary to, the Martin Luther King/Drew University Medical complex in the Willowbrook Redevelopment Area, or to projects that would revitalize the Florence area.

Current Status

To date, the LACDB has funded twelve loans, totaling $4,777,275 in the County's portion of the Empowerment Zone. At this time, less than $200,000 in loan balances remains outstanding since most of the loans have been paid off, defaulted or otherwise closed. The LACDB has attributed to the low loan volume to the small trade area, and competition from other lenders.

Transition Plan

In December 2002, the Board of Supervisors approved a transition plan, submitted by the Board of Directors of the LACDB, which called for the LACDB to work closely with the County to provide for the transfer of assets of the LACDB and the County loan portfolio to the CDC prior to the expiration of the program.

Concurrently, the CDC is working with HUD to affect the transfer of the remaining Section 108 Loan authority and EDI grant funds to the CDC's EDF. Once the LACDB is closed, the remaining funds will be subject to the County's EDI Grant Agreement related to the EDF. We have requested that HUD extend the term of the EDF Grant Agreement to 2007 to accommodate the longer development cycle of EDF real estate based projects, and we have asked for other amendments to provide regulatory relief to enhance the prospects for success.

Economic Development Fund

The County is actively pursuing projects to fund in the Willowbrook and Florence areas, in accordance with the provisions of the Supplemental Empowerment Zone application and the EDI grant Agreement. The CDC has an Exclusive Right to Negotiate with the Los Angeles Eye Institute to develop a major regional medical facility on CDC owned property in Willowbrook. Additionally, the CDC is working with the Charles Drew University School of Medicine on ways to support their Master Plan for campus expansion in Willowbrook, and is working on proposed retail projects located in the Florence area. The CDC's EDF, supplemented by the remaining EDI grant and HUD Section 108 Loan authority allocated to the LACDB, will have sufficient funds to help complete these projects.

Conclusion

Thank you for giving me the opportunity to speak with you today regarding the impact of these funding sources on the residents of County of Los Angeles. We look forward to your continued support of the CDBG and Section 108 programs.

Southern California Association of Non-Profit Housing

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Testimony Of Sam Mistrano, Acting Executive Director
Before the Subcommittee on Housing and Community Opportunity
June 30, 2003

My name is Sam Mistrano. I am the Acting Executive Director of the Southern California Association of Non-Profit Housing, known as "SCANPH." SCANPH is a non-profit organization with over 500 members devoted to preserving and producing affordable housing in the six-county Southern California region. Since 1986, our members have built over 76,000 affordable housing units, and last year started, completed or were in construction on over $1.7 billion worth of new development projects.

Our members are great supporters of the CDBG program. CDBG is a critical tool in producing affordable housing in Los Angeles. The projects our members develop could not be built without the support CDBG gives to housing production through the Los Angeles Housing Department.

Los Angeles is in a Housing Crisis

Los Angeles is in a housing crisis. Simply put, there is not enough housing being built. Between 1990 and 2000, city's population grew by 200,000 – and 80% of that increase is from new births. However, Los Angeles only produced 37,000 new units during that time. This clearly does not meet the City's housing need. In fact, the Southern California Association of Governments estimates that the City needs to produce 47,000 new units to meet current need.

Much of the housing that is being produced is market rate and luxury housing. The 2002 median price for a house in the City is $328,216 – an increase of 30% since the year before. Homeownership rates in L.A. have actually dropped over the last 10 years, while they have risen in the rest of California and the nation: in L.A., the homeownership rate dropped from 39.4% to 38.6%, while in California it has increased from 55.6% to 56.9% and across the U.S. from 64.2% to 66.2%.

As a result, Los Angeles is a city of renters. Sixty-two percent (62%) of City residents rents, and at very high prices. The median rent for a two-bedroom / one bath apartment in the County is $1100, an increase of 25% since 1999. Even a family where both parents work full-time minimum wage jobs can not afford this price – they would each have to work 62 hours per week to afford the median rent. So what is the result? Los Angeles has one of the most overcrowded living conditions in America, second only to Miami: one quarter of all renter households live in "seriously overcrowded" conditions.

CDBG Helps Ease the Housing Crisis

The key to easing Los Angeles' housing crisis is producing affordable housing. Local officials and citizens understand this. Earlier this year, the Los Angeles City Council and Mayor Jim Hahn approved a $100 million Affordable Housing Trust Fund to help produce new units. And last year, 63% of L.A. County voters voted yes on the statewide initiative Proposition 46, a $2.1 billion bond to build new affordable housing. We locals understand the need for new housing.

This money is not nearly enough to build our way out of the crisis. Los Angeles still desperately needs CDBG funding. CDBG funding is a critically important financial tool to produce local affordable housing. It helps fund the L.A. Housing Department's High Leverage Program, which is a key source of local support needed by developers to successfully apply for state funding. For example, earlier this year the Esperanza Community Housing Corporation was awarded $578,000 from LAHD, and used this

award to raise an additional $2,875,083 so that its Alegria Court project was able to be developed. CDBG helps fund the City's Trust Fund. Earlier this year, the Trust Fund committed its first grants to 13 projects building 694 new affordable housing units. These units would not be possible without City support. And in future years, the Trust Fund will increasingly rely on CDBG to expand its successes.

In fact, the majority of our 75 L.A.-area developers have CDBG money in their projects. Without the programs of the L.A. Housing Department, most of the projects my association's members build would not be possible.

One the most important strengths of the program is its flexibility. Localities can use the money to best fits the needs of their own jurisdictions. We oppose changing this aspect of the program. If funding is given to the State to allocate, for example, the state would have a much harder time determining the best needs of each jurisdiction. The needs of Los Angeles are unique, and different from those of the larger region and state. Quite frankly, our problems are worse. Los Angeles needs continuing control over CDBG funds to make them work the best that they can.

On behalf of SCANPH's 500 organizational members, I thank the Sub-Committee for hearing my testimony today.

Testimony From
Robert M. Sausedo
Chairman of the Board
Los Angeles Community Development Bank.

Good (morning/afternoon), Chairman Ney and Member Waters, My Name is Robert Sausedo and I am the Chairman of the Board of the Los Angeles Community Development Bank. I was Appointed to the Board of Directors by Former City of Los Angeles Council Member Mark Ridley-Thomas in July of 1999, and was subsequently elected by the entire Board of Directors to serve as The Chairman of the Board in December of 2001.

I am hear today to offer testimony on behalf o the Board of Directors and as a concerned citizen and volunteer. Additionally, I am joined by Steve Valenzuela, the President and CEO of the Los Angeles Community Development Bank.

Up to this point you have heard testimony about the bank and it's so called failings. My intent is to share with you some of the successes the bank has achieved and to give you a better understanding of the Los Angeles Community Development Bank's leadership and its Board of Directors.

Access to Capital. HUD provided the Bank with $100M of S108 funds and $100M of matching EDI funds. This extraordinary allocation of EDI was made in recognition of the additional risk in lending that the Bank would undertake. Credit risk was anathema to most commercial banks, resulting in capital-starved businesses in the inner city communities of LA. The Bank adopted credit guidelines and underwriting criteria similar to those employed by the largest commercial banks in the City. This was done, in part, to help facilitate co-lending with these banks, in fulfillment of significant pledges made by three large LA banks in 1995. The pledges of co-lending with major banks were worth a lot less than imagined. The LACDB assumed even greater risk than originally forecast in order to meet the unmet capital needs of businesses in the Empowerment Zone.

So what has been accomplished? To date, the LACDB has closed on over 250 loans and investments, totaling over $130 million in funding. We are especially proud of having received an award from HUD for implementing an innovative microloan program that funded over $1.0 million in loans to very small businesses in LA. With an average loan size of $15,000, LACDB funding (all of it it in the form of EDI) reached approximately 70 businesses. While many of these very small entrepreneurs experienced difficulty in expanding their businesses to create new jobs, the vast majority have either repaid their loans in full or are making good on their commitments. The bulk of the loans made by LACDB have been to small and medium sized businesses in the Empowerment Zone and one-mile buffer.

We have a number of success stories of businesses that remain open and viable, that met the national objective of creating jobs for the benefit of low and

moderate income persons AND that repaid their financial obligations to the LACDB. We also have experienced some setbacks, borrowers who failed to execute their business plans and media stories about the Bank's missteps. Rarely, has the local press published a story trumpeting the Bank's accomplishments in light of its challenges.

Recognizing that some companies require capital, and not debt, to further their business plans and create jobs, LACDB also partnered wth Draper Fisher Jurvetson and formed Zone Ventures, a partnership focused on funding early-stage investments in portfolio companies in the Empowerment Zone. We formed a similar partnership with FAME Renaissance and Hancock Partners to focus on operating companies in the empowerment zone.

The strategic exits from the Zone Ventures partnerships relied heavily on continued vitality in the IPO and M&A markets. As these sources of recapitalization dried up over the past few years, the LACDB (like other limited partners across the country) has been heroically dealing with the issues of capital calls and dilution. We remain hopeful and optimistic that the economic benefits resulting from these efforts -- new, high tech companies populating the empowerment zone and central city of LA and the resulting positive impacts -- will continue far into the future.

Reduction of Liabilities

In 2000 the Bank moved aggressively to defease its outstanding HUD debt, which as of July 2000 totaled $105 million. During 2001 the Bank reduced the City's and County's liabilities to HUD by $10 million and $4 million, respectively, approximately 16 years ahead of schedule. The reduction in liabilities occurred through a defeasance of a portion of the City's and County's long-term debt.

The bank, has successfully resolved all outstanding significant legal issues and prevailed on appeal and in the Supreme Court, in overturning a $12 million Judgment. Our Board of Directors continues to remain pleased with the hard work our Senior Staff put into this successful conclusion.

2. **Job Creation**. Providing eligible companies with capital was always intended to be a means, and not the end to economic development. The measure of success we strive for is job creation, primarily benefiting residents of the Empowerment Zone and other low/mod persons. That's the standard set forth in our Comprehensive Agreement with the City and County of Los Angeles. That's the national objective set forth in the HUD regulations.

Each company assisted by the LACDB is required to demonstrate they have the capacity to create 1 job for every $35,000 in financial assistance. Taken together, the portfolio of companies are required to create approximately

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3,800 jobs. Through 12/31/02, LACDB-funded small businesses have created 3,400 jobs. **That's 90% of the goal!** While the number of empowerment zone residents benefiting from these jobs totals 1 of every 5 jobs created, low and moderate income persons hold 80% of all jobs created. While we are proud of these accomplishments, we expected to achieve greater results. Frankly, the LACDB misunderstood the extent of the challenge its borrowers would face in creating new jobs and identifying eligible workers from the Empowerment Zone.

LACDB also understood that the federally-funded job training and referral programs operating in LA, would provide our clients with the types of resources and workers they needed in a timely manner. The LACDB has radically changed its job creation monitoring and referral processes. The fruit of these efforts will result in further job gains for low and moderate income persons from our neediest communities as our clients experience the need for an increase in their respective workforces

When the Founders of the Los Angeles Community Development bank were forming the strategies around what was anticipated to be the targeted customers LACDB would target, the economy shifted as a result of the rapid growth of the technology sector. During this time commercial banks lowered there lending standards and began to offer business loan products that were far more competitive and had significantly less red tape than the requirements that accompany S108 funding.

This resulted in LACDB taking on higher risk loans to businesses that would need to stabilize their infrastructure before they could follow through on their jobs creation commitments.

I continue to remain significantly challenged as a Board Member when I hear statements made like, "the Bank has failed at meeting its' national objectives" or "the bank is out of compliance". It is important to note that the businesses that received funding and remain in business, are not required to create jobs within a specified period of time, rather it appears that the requirements for jobs creation is open-ended. That said, current LACDB statistics show us at 90% of the required jobs creation target.

While it is true that the founders of LACDB intended for the bank to operate autonomously from the city, it is a significant departure from the truth to say that the City of Los Angeles staff has remained hands off and unaware of the level of risk that is involved with LACDB lending. Additionally, it is important to note that the reason the bank is moving toward closure, is primarily do to a lack of political will to support the bank. In short, the bank was not set up to withstand changes in administration at the local and federal level.

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Subcommittee on Housing and Community Opportunity
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Los Angeles Community Development Bank.

So where do we go from here?
As a Third generation citizen of this great City, I am encouraged by the fact that this committee is asking the question; **What are you going to do with the remaining S108 funds when the bank closes?**

As a suggestion, I offer the following.

While the City of Los Angeles wants to expand on the uses of these funds to include housing development, I am of the mind that we cannot walk away from the table without defined specificity on how the funds will be utilized. Additionally, It is my belief that we must maintain funding for our mid –sized and small businesses. Therefore a significant portion of the remaining funds should be relegated to this activity and should include other areas of the city that meet the low income census tract criteria while utilizing 2000 census tract data not the 1990 data.

Additionally, as the LACDB moves toward closure, local organizations that provide this kind of lending should be considered for the tactical deployment of this resource. I offer the following highlights from South LA Rising: Opportunities for Economic Self –Sufficiency Ten Years After the 1992 Civil Unrest. Written by Mark Drayse and Daniel Flaming Economic Roundtable Briefing Paper, April 2002.

⇒ When business is created, developed and or expanded, a certain by-product is job creation and retention.

⇒ South LA, in particular was the hardest hit after the 1992 civil unrest, with 547 buildings damaged in Los Angeles, 78% or 428 of those damaged were in South Los Angeles.

For the purposes of this study, South Los Angeles included the planning districts of Southeast Los Angeles, South Central Los Angeles, and West Adams – Baldwin Hills.

⇒ Of the 428 buildings damaged in South Los Angeles, only 19 % had payroll-tax-paying establishments in 1999. The 81 "recovered" buildings housed 147 businesses employing 985 workers (an average of seven workers per establishment).

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Of the 985 workers, comparatively, they were paid 15% lower wages than their counterparts in other parts of the City. The South LA workers are paid an average monthly salary of $1707 for an annual salary of $20,484, below poverty wages for a family of 4 in LA County.

⇒ One of the fundamental problems facing South Los Angeles residents in 1992 was the shortage of jobs. At the time, there was only one job to be found in South LA for every 4.5 residents, making it the most job-scarce area of the city.

⇒ According to the Economic Roundtable study presented in April 2002, by 1999, there was a slight decline in citywide job availability but a precipitous decline in South LA.

In 1999, there were 2.8 residents per job citywide and 7.2 residents per job in South LA. This means that there were only one-third as many jobs per resident in South LA as in the city as a whole. By the end of the decade, South LA had a joblessness rate higher not only than the city average, but 3 times higher than the national average.

What does this all mean to distressed communities in Los Angeles, particularly South LA? It means that the initial designation of the $400 million dollars to boost the local economic engine has a long way to go to create jobs and business.

Rather than place the remaining $198 million into other areas, why not designate at least half of those dollars to be placed at the local level, in local commuity-based organizations that have a strong, demonstrated track record of business development expansion and job creation and retention.

For Example:

Community Financial Resource Center (CFRC) is LA's first public/private partnership opened in 1993. In its 10th year of community economic development service to the community, it is based right here in South Central Los Angeles.

> ⇒ CFRC is a Community Development Financial Institution (CDFI) certified by the US Department of the Treasury and is also a California Finance Lender.
>
> ⇒ CFRC is one of the largest regional community based economic development organizations focusing on business development and

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partners with local, national and international banks to deliver business loans in underserved communities.

⇒ As a result of their work at the grassroots level, CFRC has created and or retained over 460 jobs valued at $16,275,000 (utilizing HUD standards at a cost of $35,000 per job) at the local level.

⇒ CFRC has delivered nearly $10 million worth of small business loans to local business owners, with the average loan size of $80,000, something banks typically won't do. That is why CFRC partners with banks, to deliver "near bankable" loans to small business owners, with a goal of assisting the business owner in developing a banking relationship.

⇒ CFRC has served over 65,000 local residents and business owners since it was started in 1993.

⇒ CFRC delivers small business loans starting at $500 called a microloan all the way to $250,000 for a small business expansion loan. They offer technical assistance to the businesses, and opportunities for becoming certified to access procurement opportunities when they are ready.

In closing, I would like to urge you to commit at least $100,000,000 to local community based community development lenders like CFRC to continue the awesome task of continued job creation and business development in our community.

Other reasons for maintaining a focus on our local businesses throughout the underserved areas include:

- Of the six million people estimated to move into California between 1999 and 2010 approximately 900,000 will call Los Angeles Home, creating a 24% increase in Los Angeles' growth rate.
- Over the next five to ten years approximately 20,000 to 30,000 people in California will be released from prison on an annual basis landing in communities deemed underserved, poor, low income.
- As communities expand, the need for small business is required to meet the needs of local communities. This is driven by need and the inability for "Big Box Developers to keep up with the growth rate.
- Increased businesses mean increased tax base, subsequently increased revenue to meet the needs of the community.

Committee on Financial Services
Subcommittee on Housing and Community Opportunity
June 30, 2003

Testimony From
Robert M. Sausedo
Chairman of the Board
Los Angeles Community Development Bank.

As a citizen of this great city, I implore this committee to keep the focus of standing on the side of what's right and supporting our local economy.

Committee on Financial Services
Subcommittee on Housing and Community Opportunity
June 30, 2003

Moneta Gardens Improvement, Inc.
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(310) 978-4357 · (310) 970-0193 fax

To: Special Committee on Community Development Block Grant Funding

From: Felipe Merino, Executive Director, Moneta Gardens Improvement, Incorporated

Date: 6/30/2003

Re: Access to Community Development Block Grant Funding

Organizational Background

Our organization, Moneta Gardens Improvement, Inc. (MGI), is a 501 (c)(3) community-based nonprofit organization that was established six years ago in order to help meet many of the growing health and human service needs of one of the poorest areas of Southwest Los Angeles County. Today, MGI has over 150 partnering agencies comprised of educational institutions, law enforcement, healthcare providers, and corporations at the local, state and national levels. MGI has in a short time been able to achieve great success in providing for the health and human service needs of the area by making resources and information available to economically disadvantaged children and adults.

Over the past few years, the services that our agency has provided low and moderate income residents of all ages include:

(1) Organizing and presenting Health, Safety & Youth Activity Fairs throughout the community,

(2) Establishing a community medical clinic with an adjoining community resource center,

(3) Establishing a school-based medical facility to meet the needs of poor children and their families with a second one in progress,

(4) Establishing Community Advocacy Centers to help low-income families with housing issues, government benefits, access to state-sponsored medical insurance programs, as well as clothing and food,

(5) Developing after-school programs for "at-risk" youth, and

(6) Referrals to other available services throughout the area.

Ours is just one of many nonprofit community-based organizations that provides essential services to those that have nowhere else to turn. I can name countless other organizations that are also at the forefront of helping families to survive. I am here today because many of the families in our communities are attempting to do just that . . . survive. Community members are attempting to work 2 or 3 jobs so that their families will continue to have a roof over their heads and as a result have little or no time to be civically involved. It is the goal of my Board and of our organization to empower

families so that their children will have a better quality of life and will have hope that a better and brighter future is possible. In order to be able to achieve this goal, necessary funding must be accessible to organizations like mine. Community Development Block Grant Funding is a mechanism that has been put in place by the federal government in order for local governments to provide assistance to extremely low to moderate income families with federal dollars.

Why do nonprofits not have access to Community Development Block Grant (CDBG) funds?

1. I would suggest that many nonprofits are not even aware that CDBG funds exist. Because many nonprofits are directly a result of low-income residents uniting to improve their own community, many are not informed that such resources exist. In addition, because many nonprofits have humble beginnings, they do not have the accounting mechanisms in place to pursue CDBG funds.

2. Elected officials in communities that utilize CDBG funds often are not familiar with grass roots efforts that are taking place and thus nonprofit organizations do not have access to CDBG funds, unless someone in the organization is politically savvy.

2. Notice of CDBG funding at the local level is usually given by way of newspaper advertisements. However, those advertisements are often not seen by community-based organizations .

How can nonprofit organizations be given access to Community Development Block Grant (CDBG) funds?

1. Resource can be employed by the federal government in order to provide technical assistance to nonprofit organizations that want to apply for government funding.

2. In order to monitor that not only politically savvy organizations receive funding, it might be beneficial for the federal government to set up a database, of newly-established nonprofit organizations, that local government agencies are **required** to access when they do their annual RFP process and send out mailings for CDBG funding. The process currently requires notice in a newspaper and local governments send letters to previous applicants.

3. The problem of nonprofits not being informed that CDBG funds are available at the local level can be addressed simply by including a notice with initial correspondence received by the Internal Revenue Service that such funds exist at the local and county levels.