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COMMUNITY DEVELOPMENT BLOCK GRANTS: 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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COMMUNITY DEVELOPMENT BLOCK GRANTS: THE IMPACT OF CDBG ON OUR COMMUNITIES

Wednesday, April 12, 2006

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

The subcommittee met, pursuant to notice, at 9:00 a.m., in Loker Conference Room, California Science Center, Exposition Park, 700 State Drive, Los Angeles, California, Hon. Robert W. Ney [chairman of the subcommittee] presiding.

Present: Representatives Ney and Waters.

Chairman NEY. I'd like to welcome everyone this morning to the Subcommittee on Housing and Community Opportunity's field hearing on the Department of Housing and Urban Development's Community Block Grant Program, known as CDBG to the rest of the country. And today will be an official hearing of the U.S. House of Representatives, so the transcripts, as well as the conclusions reached today will be taken back to Washington, D.C., and will be utilized. I can kind of guess there will be support of CDBG today to keep it. Then it will be important for the rest of our colleagues in Washington, D.C., to know what the attitude was out here.

I want to thank, first of all, our ranking member—Congresswoman Maxine Waters—who asked for this hearing. I am so happy that you have asked the subcommittee to come here, and I thank you for hosting us here in Los Angeles.

And, of course, Congresswoman Waters and her staff have played an extremely active role in preparing for this hearing. We want to thank them. Also, Jeff Riley is here today; he works for Ranking Member Barney Frank of Massachusetts.

And our chairman of the Full Committee, by the way, is Michael Oxley of Ohio.

The CDBG program, of course, as administered by HUD, is the Federal Government's largest and most widely available source of financial assistance to support State and local efforts in Government related neighborhood revitalizations, housing, rehab, and economic development activities. It is generally recognized as the mainstay for targeted community development of cities, counties, and rural and urban areas to principally benefit low- and moderate-income persons.

The program has developed its 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, and provisions of social services.

So this program, CDBG, emphasizes HUD's mission of working through partnerships with State and local governments. And due to the flexibility in the uses of the CDBG funds, the program is used in conjunction with many other HUD programs to assist communities and to target specific populations.

I do want to let you know that last month I held three House field hearings in rural Ohio that highlighted many of the important issues of CDBG that I am sure we are going to hear about from you today. And back in Ohio, many local mayors and community development officials testified about how CDBG monies have been used for a wide variety of projects such as providing safe drinking water, sewer repair, and purchase of firefighting trucks and equipment.

To highlight one example, in Knox County, Ohio, CDBG funding has allowed for the revitalization of several downtown streets, such as in Mount Vernon. The rehabilitation of the Mount Vernon streetscape has brought new life to Mount Vernon and to residents and visitors alike. They can enjoy the renovated shops and restaurants and that, of course, leads to more tourists coming, which leads to more money in the community and, ultimately, to more jobs. At one time there was a question of well, you know, should CDBG be diverted to the Department of Commerce? And had that happened, I think you would not have been able to recognize the program by the time it got out of the Department of Commerce.

In the areas that I represent, in the 18th District, 20,000 people is considered to be a large city. Most of our towns consist of 1,400 to 2,000-some people. And in some cases—ambulance service, for example—it would take you 40 minutes to get somewhere between communities where there is even a hospital. So the ambulance service is important. So I think CDBG is something that is just so important.

Now President Bush's fiscal year 2007 budget proposal raises some interesting and serious questions about what role community development should play in helping local State governments provide safe and affordable housing to its constituents. In addition to recommending a new formula change for CDBG, that focus is more on the neediest communities which was raised, and I hope it is raised here today. That was raised back in Ohio by some experts—Coalition for Appalachian Development—people running food banks about some of the change with CDBG and about the neediest communities and what is already being done for the neediest and what that would do by kind of changing the formula. So maybe that will be focused on today.

But also the funding level for fiscal year 2007 in the budget is .27 cents below last year's enacted levels. So if you take the 10 percent cut that actually came out, I think it was from the Reconciliation bill there was a cut, which I did not vote for the bill I would note for the record. But from that to this if you add the 25 if it would go through, and 10 you are at 35 percent cut for CDBG over the last couple of years.

So, again, I think it is an important program.

Let me just close by saying a couple of things. Now more than ever before, I have been in Congress for 11 years and I have been in government for 24 years as a State senator, State rep, so I have looked at CDBG from the State legislative end of things, as I know our Congresswoman has, but I think now more than ever since I have been in Congress, this is a time where, if you are going to help with CDBG, if it is going to be effective to save these concepts, it's going to be effective on having this program continue, that the local CDBG, the local development entities, the local elected officials have to work with their Members of Congress more than ever before. You must have a tighter working relationship than ever before with Congresswoman Waters and myself, and other Members of the House. I think it is more critical than in the past to do that. It has to be a partnership in looking at how the programs are used.

So, again, there are a lot of other issues our committee has tackled. I am proud to say that we are the first subcommittee that went to New Orleans and went down to also Gulfport, Mississippi. We were the first ones that did it even before the Katrina Committee. We have been trying to address, the subcommittee, many many important issuing in housing. And I know people think we cannot agree on anything, but in this area I am proud to say that our ranking member, Mr. Frank, and our chairman, Michael Oxley and other Members, especially on our subcommittee, have tried to do many things to help a lot of the neediest people. And there is a lot more work to do, but I am just proud to say that we have been working on those issues.

So I want to thank again our ranking member, Congresswoman Waters, who has been a pleasure to work with. It has also been a pleasure to watch the Congresswoman as a voice for people who cannot speak out for themselves, not only here sometimes in the process, but also in Washington, D.C., on a national basis. So thank you. And I will yield to our ranking member.

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

Good morning, ladies and gentlemen. Thank you for coming out this morning. Your attendance here is very important today, and I am so pleased to see this room full.

It is important for you to be here today because you have to understand that we must try to stop the proposed cuts to this most important program.

Before I continue with my remarks, I would like to thank Chairman Ney. I would like to thank him for authorizing this hearing, and for coming to Los Angeles to listen to our City's leadership, and to our program directors testify about how important this program is.

Why is it important for me to thank him? It is important for me to thank him because he could very well be in his district, doing the work that Members must be doing at this time to run for reelection. His election is just next month. And so most times Members do not take time from their districts to come to somebody else's district to talk about their problems; they are focused on their own problems. So I am delighted that he responded to my request and is here.

But more than that, I am delighted that we have been able to work together, not only on CDBG, but if you recall 3 years ago he was here on Section 8. These are programs that oftentimes you only hear from Members on my side of the aisle. But I want you to know that Congressman Ney and I struck a relationship because a long time ago we decided that the problems of the rural community are similar to the problems of our urban communities. We both have poor people in our districts. We have people who depend on assistance from the Government, and because of that, we should be working together.

Now granted, we are not going to agree on everything, and we know that. But those things that we do not agree on, we just leave each other alone. But for those that things that we can work together on, we certainly do; CDBG is one of those programs.

So, even though this is an official hearing and we do not entertain applause at official hearings, I am going to ask you to give him a big round of applause and thank him for coming to be with us. Let the record show I broke the rules again, Mr. Chairman.

Okay. Let me just get to my prepared presentation this morning. I want to get right into the impact of CDBG on our communities. The Subcommittee on Housing and Community Opportunity—of which I am ranking member—of the Committee on Financial Services, is conducting this hearing today. And I believe, and I am sure the chairman would agree, that whenever we can bring the Congress to the people of our Congressional districts, it is well worth the effort.

Today we are here to determine the impact of CDBG spending and proposed cuts in that spending on Los Angeles City and County, as well as in the 35th Congressional District, which I serve. And while I am going to focus on a few of those programs today because I am working very hard to try and preserve all kinds of programs, I want you to know that this hearing is about all of the CDBG funded programs.

CDBG is a major Federal program that I have worked very hard for since coming to the Congress of the United States. And I have tried to protect and strengthen CDBG. CDBG has served the Valley to South Los Angeles since 1974. Every year for at least 5 years, we have been asked to consider ideas ranging from substantial cuts in funding for the CDBG program to changes in the way the program funding is allocated. Other important community development programs including Section 108, the Home program, Brownfields Redevelopment Grants, and the National Community Development Initiative and Urban Empowerment Zones would be cut or eliminated by this Administration. However, I believe that it is because of the role of Mr. Ney and others who are advocates for housing and community development programs in Congress that our communities have benefitted right here in Los Angeles County and the City of Los Angeles.

CDBG forces you to have a role in developing the CDBG plans for approval by HUD, since the input of the community is the most important step in the process of moving CDBG to a program of action.

Just quickly, what is CDBG? I often hear that from people who are not directly involved. And I basically try to explain it this way:

It is tied to three basic activities. It is here to principally benefit 70 percent low- and moderate-income persons. It aids in eliminating or preventing slums and blight, or it is here to meet the urgent community development needs that are caused by certain conditions that pose serious and immediate threats to the public.

Although many of you have heard of the CDBG program, or you are involved in it, there are often gaps in information relating to the President's budget and Congressional action on programs such as CDBG, as well as many other programs that are in place to assist the communities that we serve.

Now, I represent the 31st Congressional District, and included in that district are several cities: the City of Lawndale, the City of Inglewood, the City of Gardena and the City of Hawthrone. What you may not know is that the President's budget proposal for fiscal year 2007, if enacted, would reduce the CDBG program by more than 20 percent. Every program supported with CDBG funds would be severely reduced or eliminated.

As a strong supporter in Congress of the CDBG program, I have fought and will continue to fight to prevent these cuts. These unpopular cuts would affect a broad range of housing revitalization, community and economic development activities, job creation and public service programs designed to primarily benefit low- and moderate-income persons in Los Angeles County and City.

The backdrop for these cuts is simple. In the past 5 years CDBG has been responsible for the rehabilitation of over 8,500 housing units, created and preserved over 2,060 jobs, removed over 41 million square feet of graffiti, and provided loans and technical assistance to over 7,000 small businesses. The President's proposed reduction in CDBG would deny Los Angeles County $41.1 million in funding for all kinds of program activities. The City of Los Angeles, which will receive $74.5 million this fiscal year, would receive only $55.8 million in fiscal year 2007. This is an inflation adjusted cut of 48 percent.

The State of California would lose almost 3 times the above amount, that would be $119.7 million. The positive statistics that I just cited would read differently if the State of California lost $119.7 million.

What the cut will not reveal immediately is that low- and moderate-income persons and families would suffer the most because CDBG program is their program.

And while many of you may not be familiar with all of the CDBG funded programs or the requirement that 70 percent of the funds be spent on activities to benefit low- and moderate-income persons, you have to come to rely on these programs in your day-to-day activities. And let me just mention a few of the programs throughout our City: Big Brother and Big Sister of Greater Los Angeles; Mentor Outreach; Junior Blind of America; Infant Family Project; Los Angeles County Department of Consumer Affairs; Homeowner's Fraud Prevention Project; Community Development Commission; Single Family Grant Program; Gang Membership Vandalism and Illegal Nuisance; Dumping Reduction Program; Watts Labor Community Action Committee, etc.

Now let us take a look at the impact of cuts on the City of Lawndale, an important community in my district. The Mayor is

here today and he will talk more about this. They would most definitely suffer under the proposed cuts for CDBG as well.

The City's graffiti removal efforts would be undermined, and residential rehabilitation grants to low- and moderate-income residents for electrical, roofing, and plumbing repairs would just disappear. And just about everyone in Lawndale knows about the Lawndale Civic Center Seniors Hot Lunch program.

Well, my friends, the City of Lawndale will have to find another source of funding for their seniors if these cuts become law. I do not need to mention every program that would be affected, but this should give everyone an idea of why we are here. Youth would be at great risk, seniors would be put at risk, blight and graffiti would return, and the overall quality of life for each and every one of us would be challenged.

The City of Hawthorne would lose $321,000 under the proposed cuts while the City of Gardena would lose $298,000 plus.

Finally, my City of Inglewood would suffer the most with the disappearance of $1,100,000 in CDBG funds.

And I think today's witnesses will answer the important mission of this subcommittee. We're here to listen and to learn about the impact of the CDBG program on their communities and the people who live in them.

And we thank you very, very much. I want to say to the elected officials who have come today, I know your time is valuable, and we thank you so much for showing up.

I want to think HUD for being here today. I know sometimes it gets a little bit difficult to defend the President's budget. However, in working with HUD, I have found that oftentimes there are many ways by which we can get the information, and hear from you, that will help us to be able to convince others that perhaps we should certainly not be making these kinds of cuts.

With that, to the staff who are out here from Washington, D.C., we thank you for the work that you have done on both sides of the aisle to help put this together for us today.

You are here at the California Science Center, which is one of the real gems of the overall greater Los Angeles area, and a place of which I am very proud. This building, and this complex, was part of my work when I served in the California State Assembly and we were able to fund a master fund that has brought it to the point that it is today. So if you have time, just spend a little time here after the hearing.

Thank you very much.

And I will yield back my time to the chairman, Mr. Ney.

Chairman NEY. I want to thank the gentlelady. I thank her also for her fine comments.

I also wanted to let you know before we start that there are copies of the testimonies over to the left on the table. And you're more than welcome to get a copy of the testimonies today.

Also for the record, without objection, we have several statements for the record from: Congresswoman Hilda Solis; The City of El Monte, City Manager's Office; The City of Monterey Park; and the City of Rosemead.

Without objection, these statements will be entered for the record.

And today we will start with a panel. The Honorable Pamela H. Patenaude, Assistant Secretary for the Office of Community Planning and Development, U.S. Department of Housing and Urban Development, known as HUD.

Of course, Mr. Robert, known as Bud as I understand it, Ovrum, deputy mayor for Housing and Community/Economic Development, City of Los Angeles, California on behalf of the Mayor.

And also the Honorable Eric Garcetti—

Ms. WATERS. Garcetti.

Chairman NEY. Garcetti. I think in Italian, so I say Garcetti. My home city is 85 percent Italian, so if I see a C, it's a J. But Garcetti. District 13, president of the Los Angeles City Council.

I think 3 years ago you were a councilman? Okay. That's good.

And the Honorable Roosevelt F. Dorn, Mayor, City of Inglewood, California.

And also the Honorable Harold Hofmann, Mayor, and I have heard a lot about Lawndale and a lot of good things, the City of Lawndale, as I have many of the smaller towns around here also.

So I want to welcome all of you. And we will begin with Assistant Secretary Patenaude.

STATEMENT OF PAMELA H. PATENAUDE, ASSISTANT SECRETARY FOR THE OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, ACCOMPANIED BY NELSON R. BREGON, GENERAL DEPUTY ASSISTANT SECRETARY, AND JO BAYLOR, ASSISTANT DEPUTY SECRETARY FOR FIELD POLICY AND MANAGEMENT

Assistant Secretary PATENAUDE. Thank you, Mr. Chairman.

I am pleased to be here in Los Angeles on behalf of Secretary Alphonso Jackson.

I am joined here today by my General Deputy Assistant Secretary, Nelson R. Bregon, and Hud's Assistant Deputy Secretary for Field Policy and Management, Jo Baylor.

Thank you Chairman Ney and Ranking Member Waters for scheduling this field hearing to discuss the reform of the Community Development Block Grant program.

The CDBG program has been the Federal Government's primary vehicle for assisting State and local governments with a wide range of community development activities aimed at improving the lives of low- and moderate-income families.

Chairman NEY. If you could yield for a second?

Can you hear the witness in the back? You can. Okay. There was a question of whether you could or not. I'm sorry. Go ahead.

Assistant Secretary PATENAUDE. Thank you. During the past 3 decades over $113 billion has been appropriated for the CDBG program. These funds are used for housing rehabilitation, public services, infrastructure, and economic development activities.

The President's fiscal year 2007 budget retains the CDBG program at HUD with the recognition that the program's impact has defused over time. We propose to redirect CDBG's ability to target community development needs. We have identified a series of initiatives that, if enacted, will sustain the CDBG program in the future.

One critical reform is the revision of the CDBG formula which has been essentially untouched since the 1970's. Over the past decade, we have witnessed steady erosion in the ability of the formula to target CDBG funding to community development needs. Demographic changes, development patterns, and other factors have created significant distortions in the distribution of the CDBG funds.

In February of 2005, HUD released a study that identified two serious deficiencies that result from the current formula. First, many communities with lesser need for CDBG funds receive much more per capita than many communities with greater need. Second, many communities with similar needs receive very different per capita amounts.

For example, here in California, the Cities of Santa Monica and Santa Maria have approximately the same population. Under the current formula, they both receive about $1.3 million annually. However, in terms of need, they are very different.

Santa Monica has a per capita income of $43,000 and a relatively low level of distress, while Santa Maria has a per capita of only $14,000, and significantly more distress.

While Santa Maria's community development needs are much greater, the current formula does not recognize this. I think we can all agree that it is critical to restore equity to the distribution of funds to improve targeting and to preserve the fairness of the CDBG program.

The second major initiative proposed in the President's budget is the establishment of a challenge fund. This fund would enable CDBG grantees to obtain additional funding for community and economic development activities in distressed neighborhoods. In order to be considered for a challenge grant, a grantee will need a strategy that concentrates public and private investment in distressed neighborhoods.

The reform also proposes to consolidate programs that duplicate current efforts, such as BEDI, Rural Housing, and Section 108.

Finally, we are implementing a new performance measurement framework to establish clear measurable goals and community progress indicators for our formula programs.

Improvements to HUD's Integrated Disbursement and Information System, commonly referred to as IDIS, are critical to the success of this performance measurement. We are working to transform the current antiquated version of IDIS into a user friendly web-based system. These enhancements will make the system easier to use and will expand our ability to collect data that shows the effectiveness of CDBG.

The Community Development Block Grant program helps communities across the Nation address a variety of needs. However, program reforms are necessary to improve and expand the economic opportunities of the lives of low- and moderate-income Americans.

I thank you for this opportunity to speak with you today about the Administration's proposal to reform the CDBG program, and I look forward to answering your questions.

Thank you.

[The prepared statement of Assistant Secretary Patenaude can be found on page 104 of the appendix.]

Chairman NEY. Thank you very much.

Mr. Ovrum?

STATEMENT OF ROBERT OVRUM, DEPUTY MAYOR FOR HOUSING AND COMMUNITY/ECONOMIC DEVELOPMENT, CITY OF LOS ANGELES, CA (ON BEHALF OF MAYOR VILLARAIGOSA)

Mr. OVRUM. Good morning, Mr. Chairman, and Ranking Member Waters. I am very pleased to be here today to present testimony on behalf of Mayor Villaraigosa.

Although the Mayor is very distressed by the President's fiscal year 2007 budget proposal to consolidate and reformulate funding for the Community Development Block Grant program, we are certainly very encouraged by the commitment of Congress to understand the impact of this proposal on the nation's low- and moderate-income population. Thus, on behalf of the Mayor and everyone here, allow me to say how pleased we are that you are visiting us in Los Angeles for this important discussion.

As you may know, the Mayor was recently appointed to be the Chair of the United States Conference of Mayors Task Force on Poverty, Work, and Opportunity. We are very excited to work with the Mayors around the country to address the important issue of poverty by developing strategies that will make our Federal, State, and local dollars stretch further while enhancing the positive input that we can make on the lives of the poor. At the same, the Mayor looks forward to working with Congress to ensure that the critical programs and services funded by CDBG are preserved for the people who rely on them.

As you will hear in other testimony this morning, CDBG funding is vital to the City of Los Angeles. For over 30 years, CDBG has been one of the most effective tools available to the Government to strengthen local communities. CDBG provides the flexibility and the funding to address the needs of the poor and working families who continue to face tremendous quality of life and opportunity challenges.

Here, in Los Angeles, in the undisputed commercial and cultural atmosphere of the richest State in the richest Nation in the history of the world, you see close to 10,000 homeless children. Thousands of kids arrive in public schools every day who do not have a bed for the night. Poverty, however, is not confined just to Los Angeles.

It has been 50 years since *Brown* v. *the Board of Education*, but one-third of African-American children still live in poverty.

Across the country, 6 million school children are on the verge of failing out of school.

Eleven million Americans cannot read a bus schedule or fill out a job application.

Three-and-a-half million sleep in shelters and doorways and highway underpasses.

These statistics are constant reminders of what level of work remains to be done in this City and across the country.

That is why the Mayor remains deeply concerned that the City again continues to face substantial reductions in Federal funding for programs funded under our Housing and Community Development Block Grant program, particularly CDBG. Last year, that re-

duction amounted to approximately $9 million, or 11 percent of our allocation from the previous year.

While our Federal allocation shrinks, the need for services and the number of requests for funding continues to grow. For the 2006/2007 program year the City received a total of 215 applications requesting in excess of $254 million in CDBG support, of which only approximately $73 million was available and awarded. It is my hope, and the Mayor's hope, that the policy leaders in Washington do not confuse the disappearance of this program with the disappearance of the problem of poverty.

In a few minutes our general manager of the Community Development Department, Clifford Graves, and others, will share with you some of the great program efforts funded in the City with CDBG dollars. Mr. Graves will provide you with an outline of how the City historically uses these funds and how any additional reductions will impact the City and its most needy residents.

Again, thank you for the opportunity to address you this morning. And thank you very much for coming to Los Angeles, and for your interest in Los Angeles.

Thank you very much.

[The prepared statement of Mr. Ovrum can be found on page 100 of the appendix.]

Chairman NEY. Thank you.

Mr. Garcetti?

STATEMENT OF ERIC GARCETTI, DISTRICT 13, PRESIDENT, LOS ANGELES CITY COUNCIL

Mr. GARCETTI. Thank you very much, Mr. Chairman. It's wonderful to have you back here in Los Angeles. And Ranking Member Waters, thank you for your extraordinary work on behalf of not only your own district, but this entire region, and the United States in this area.

And, Mr. Jones, it is good to have you back in Los Angeles, as well.

I wanted to thank you for being here and for being so generous when we come to Washington with all of your time as well in looking at the context of what we are discussing.

Just as a side note, Mr. Ney, you know Los Angeles was really settled by midwesterners and we have whole neighborhoods that in the past were known as, you know, Little Ohio and Little Indiana and other parts. So that legacy is continuing the links here. So consider this your second home.

You know, let me change what I was going to be saying. I have been spending the last 4 weeks editing my fiancee's doctoral dissertation which is on welfare poverty in America. And she took a case study from the midwest in Michigan, where she detailed and interviewed 80 women who were sampled and their life experiences; what it was that brought them to live in poverty, and what it is that is keeping them in poverty.

And what was interesting about what she has been looking at, and that I have been editing for the last few weeks, is that we have something called the American Dream here in the United States which says we are all just one lucky break away from making it. And on the flip side of the American Dream is something that

many people do not talk about, which is what happens to that one person who has one unlucky break: An abusive household that a child is raised in; somebody who is born into a homeless family; somebody who unfortunately does not have a social network in the neighborhood where they live in to find the job opportunities, no matter how strongly they look around each corner for it.

So the ideological context of what we talk about here today, Republican, Democrat, nonpartisan, as many of us are here as local officials is the ideology of having the most basic government outreach to make sure that those who are on the flip side of the American Dream, in fact, living an American nightmare, have a way out.

The political context of this you well know. We are a Nation at war, but we have been a Nation at war for 3 decades against poverty under Presidents Nixon and Ford, under President Carter, under President Reagan, the first President Bush, and President Clinton. We have seen an expansion of that war on poverty. We have seen the belief across partisan lines that it is a war that is worth winning.

Unfortunately now the political context at the local scene has shifted dramatically. And I know that Congresswoman Waters, Congressman Ney, and so many other Members of Congress meet each year with the National League of Cities when we come there, and 95 percent of Congress sits down with local officials in one day. It is one of the most impressive lobbying undertakings anywhere in the United States. And we are speaking with one voice.

And I chair for the Los Angeles County, I am the president of our National League of Cities Local Cities. So on behalf of the 88 Cities that are here we are speaking with one voice across partisan lines about the importance of this.

And then lastly, I want to put into context the need that we have here in Los Angeles. We recently used block grant monies to finally take a snapshot of our economy here in Los Angeles. And there are some wonderful things that showed that we got out of the recession from the 1990's, retooled and are very nimble in terms of the economy and the entrepreneurship that we had. But as you break that down by geography, we have had some troubling statistics.

In south Los Angeles more than a decade after the riots here, we lost 8 percent of the jobs. All the rest of the regions of Los Angeles saw job growth, and yet we saw a decline there.

I know that you want accountability for these dollars, and we want that, too. It is already there because of the great work of HUD. Ask any of these community groups whether it is easy to get this money, easy to spend it, easy to apply for it. It is not. It is very stringent. In fact, some people are scared away because it so stringent, so we know we have the accountability.

But secondly, if I can leave you with one thing, I want you to know that we are not here with our hat in hand saying we are not going to step up, too.

In Los Angeles, we have built the largest affordable housing trust fund, partially with the block grant dollars, but with our own general fund monies, too. Every dollar that we have put out there on affordable housing, we have leveraged five fold; five fold with State, private, and nonprofit dollars. This fall, the Mayor and I are putting on the ballot a $1 billion affordable housing bond here in

the City of Los Angeles, the largest affordable housing bond anywhere in the country's history locally. So we are not just saying give us the money; we are doing our part and we are stepping up.

We are asking you to continue to be that partner, and I know that you all feel that same way.

I want to thank you from the last time that you were here because it was Congresswoman Waters who first said you know we always see these signs up saying the council member and the mayor are rebuilding this area, doing this wonderful project, but how about the Members of the House? And we passed policy based on that recommendation here in the City that now when we spend those block grant dollars, it gives credit to Washington, too, to our Representatives who are helping to spend that money, and we have those names up there as a recognition of the partnership that we have here.

But I will share with you in closing that each dollar of this funding that we put out there, a dollar of block grant that goes to the trust fund that brings $5 more dollars in and builds housing and has created about 200,000 permanent jobs here just in the construction industry in the last few years, $1 of Brownfields' money near the port in Wilmington where one-quarter of all of our City's scrapyards are, where we are able to take a Brownfields, that has been greatly polluted, that we finally turn around for a company that makes almost a quarter of all the AYSO uniforms for our kids throughout this country, was able to double the jobs that they have there.

$1 that goes into a new shelter in Hollywood and takes a person off the streets who has never been in a shelter in his life, and whom I just talked to a couple of weeks ago. And for the first time in 25 years, he has a job and is cleaned up.

We know that this is accountable money. We know that it is flexible money and we know that we are your partner in that money. As we continue to spend, we hope that you will recognize the taxpayer money that is represented here, but behind us that goes to Washington, D.C., prioritizes that partnership from the Federal level as well.

And I want to thank you, Chairman Ney, for being such a strong voice. And as the National League of Cities moves forward, you know that there is a bipartisan support for this. We see a different move from the Administration, but we know that we have so many allies in Congress across party lines. And we hope that not only can we beat back the cuts, we hope we can restore the levels that were there before.

Thank you.

[The prepared statement of Mr. Garcetti can be found on page 68 of the appendix.]

Chairman NEY. I want to thank you for your testimony. And we're going to suspend the regular order for a second.

There are people standing in the back, and I think in the hallway, there are some extra chairs that have been set up. So please have a seat. I was told there was some people in the hallway. So, please feel free to have a seat.

And also, we are here for a lot of people today in communities of all ages, but the younger generation is what everybody is about,

and I think I see some younger generation friends in the audience. And I know the Congresswoman wanted to give some recognition.

Ms. WATERS. Well, I certainly do. One of the things we tried very hard to do, and I think we accomplished it, was to make sure that all of the CDBG funded program recipients received a notice about this hearing. We are going to need you to help us in this fight and in this struggle to try and keep these cuts from becoming reality.

For those young people who came today, you are welcome. For those young people who are identifying us by way of your banner, thank you very much. And for those young people who want to sit down, we have some extra chairs. Welcome. Thank you for being here today.

Mr. GARCETTI. Mr. Chairman, if you will excuse me, we have a Council meeting at 10:00 that I have to preside over.

Chairman NEY. Yes. You are excused.

Ms. WATERS. Thank you very much.

Mr. GARCETTI. My apologies.

Chairman NEY. And to the young people again, welcome. They range in all ages, but I think I see a 2-month old also over there, who is probably the youngest visitor in the history of House hearings.

So, again, welcome to all you great young people. And I think we can give them a round of applause. Thank you.

Mayor, Mayor Dorn?

STATEMENT OF ROOSEVELT F. DORN, MAYOR, CITY OF INGLEWOOD, CALIFORNIA

Mr. DORN. Good morning.

I would like to begin by thanking Chairman Ney for conducting these hearings today.

I want to especially thank Inglewood's Congressional Representative, Congresswoman Maxine Waters, for her constant efforts on behalf of the City of Inglewood and the other communities and the United States that she so admirably represents.

The City of Inglewood has participated in the Community Development Block Grant program since its inception. Our residents and businesses have benefitted greatly from the crucial Federal funding provided through the CDBG program.

The CDBG program has provided more than $25 million in assistance to low-income families, individuals, and businesses. Indeed, the CDBG program has been vitally important to the City of Inglewood and to our ability to enhance safety, prosperity, and increased livability within our community.

Inglewood utilized CDBG funds to educate and protect low-income individuals with regard to housing discrimination. In an effort to ensure fairness and eliminate housing discrimination, over 10,000 low-income individuals have benefitted from fair housing counseling. These monies have funded legal assistance to individuals who are victimized by unfair housing practices.

The CDBG funds help us in our overall effort to maintain a suitable living environment in our community. Inglewood uses over $1.3 million annually in CDBG funds to build and improve the public infrastructure system in CDBG-eligible portions of the City.

These infrastructure improvement projects include: Redesigning streets for increased traffic safety around local parks and schools; increasing pedestrian mobility for persons with physical and developmental disabilities through an aggressive program of installing pedestrian wheelchair ramps in over 350 locations throughout Inglewood, and; increasing neighborhood safety through improved property maintenance and correction of building violation deficiencies. These efforts have resulted in achievement of an 80 percent correction rate of over 8.000 residential and commercial property maintenance/code enforcement violations. Additionally, CDBG funds are used to eradicate over 18,000 annual incidences of graffiti. This funding allows our City to enhance our community beautification efforts, which in turn encourages home ownership, community pride, and investment in our City.

CDBG funds are a powerful community-based crime prevention tool. Our City has leveraged CDBG public service funds to assist several local nonprofit organizations to assist our police department to combat gang-related crime. This effort resulted in the development of vital game and intervention programs that divert at-risk youth from becoming involved in gang activity. As a result of our community-based crime prevention efforts, gang activity in the City was reduced by 18 percent over the past 3 years. We need CDBG funds to continue our efforts in this regard.

CDBG helped spark an economic development boom in Inglewood. The City of Inglewood suffered from an increasing blighted downtown area after the relocation of our major retailers from the City: Sears Department Store; J.C. Penny; and Boston stores. Inglewood leveraged $1.2 million in CDBG Section 108 loan funds, with $700,000 in Redevelopment Funding, and $500,000 in Department of Commerce Economic Development funds, to rebuild the infrastructure in the downtown area and provided over $250,000 in small business loans, and created 10 full-time jobs.

As a result of the economic development and beautification of the City's central business district, major retail and restaurant chains have decided to open stores in our City. These businesses include: Home Depot; Target; Bed, Bath and Beyond; Chili's; Marshall's; Michael's; Ross Dress for Less; Staples Office Supplies; Bally's Total Fitness; Red Lobster; and In-N-Out Restaurant. These new developments have resulted in hundreds of additional jobs being created in the City. We fully anticipate that the other prominent national chains will follow now that the City of Inglewood is viewed as an economically viable place to conduct business.

Inglewood, like most other cities throughout the Nation, depends on CDBG funds to provide services and improvements that are vital to maintaining the vitality of our community. The changes proposed within the President's fiscal year 2007 budget would adversely affect the residents of Inglewood and our businesses. In fact, our budgeted CDBG revenues for the current fiscal year represent a 23 percent decrease in funding from the previous year. Our overall budgeted revenues from the Department of Housing and Urban Development represent a 27 percent decrease from last year. The proposed "reform" of the CDBG program would undermine our ability to help low-income families at a time when they need our help most.

I want to take this opportunity to respectfully urge the members of this committee to take steps to protect a crucial source of funding for communities across the Nation. As the President of the National Conference of Black Mayors, I represent over 600 mayors across this country, and to reduce CDBG would hurt their cities significantly. In many instances, CDBG is the life blood of those cities. So I urge you to do everything you can to prevent the loss of these funds.

America is a generous Nation that is constantly giving to others around the world. Now, I humbly ask that you do what is right and extend the same spirit of generosity to the citizens of America right here at home.

Again, thank you very much for extending me an opportunity to testify before you today.

[The prepared statement of Mayor Dorn can be found on page 64 of the appendix.]

Chairman NEY. Thank you, Mayor.

Mayor Hofmann?

STATEMENT OF HAROLD HOFMANN, MAYOR, CITY OF LAWNDALE, CALIFORNIA

Mr. HOFMANN. Good morning. My name is Mayor Harold Hofmann, and I am starting my 17th year this morning as Mayor of the City of Lawndale.

It is my pleasure to be here representing the community of Lawndale. I am here to discuss what CDBG funds do for Lawndale, how those funds are used to support and enhance our City, and what it would mean if those funds were to be cut, or worse, eliminated.

I hope that this testimony will allow the subcommittee to see the great things the CDBG does for this community and allow you to discern why it is necessary to stop cuts in CDBG funding.

Lawndale is a community of approximately 31,000 people, but it is strategically located in what we affectionately call the "Heart of the South Bay." As is the case in many California cities, Lawndale's financial resources are severely limited. This is shown in the two largest areas for generating revenue: Property tax and sales tax. In 1978, when California's Proposition 13 was passed, Lawndale was a City that had no property tax. Today the City receives a very small percentage of what the residents pay in property tax, and much less than the average California city's portion.

Additionally, with the small size of approximately 1.9 square miles, Lawndale does not have a great deal of retail development, and therefore does not receive much sales tax. Because of these factors, the City of Lawndale must rely on other funding sources, including CDBG, to pay for many of the programs we operate.

Lawndale is a community that has been participating in CDBG since its inception 32 years ago. This funding has been benefiting the community in many ways. However, in recent years, due to funding decreases, City staff has not had the ability to fund or implement any new projects. In the past, to determine what programs the City was able to provide, the staff generally recommended continuing existing CDBG funded program that provided the most benefit to the qualified residents. When a CDBG project was com-

pleted, or additional CDBG funds were made available, staff recommended the implementation of new projects. This was accomplished through the request for proposals to implement new projects. This has not happened in some time, and the City has been using it's dwindling CDBG funds to support the same programs year in and year out.

Most recently, funding has gone to an item that is considered extremely important, and has become a necessity. The previously noted strategic location of Lawndale in the heart of the South Bay has caused, and will continue to cause, a significant number of vehicles and large amounts of traffic which are generated by Lawndale's larger surrounding neighbors. Because of this, large portions of Lawndale's CDBG money goes to improve and maintain our 22 miles of streets and to make our sidewalks A.D.A. compliant and more accessible to residents and visitors alike. In recent years, CDBG funding has been also used for procurement and advances for the Lawndale senior citizen population with goals of creating a new senior facility. These funds are currently used to support these seniors with a nutrition program, providing daily meals at reduced, and often, no cost. And other programs currently funded through the CDBG include residential rehabilitation and, of course, graffiti removal. These programs allow for the community of Lawndale to continue to appeal to and attract families, and move away from blighted conditions.

As you may be aware, the Federal Government has been cutting funding to CDBG over the year with funding for CDBG decreasing significantly over the past 3 years. If funding is cut further for Lawndale's CDBG's program, its residents will be affected in immeasurable ways. Cuts in this type of funding will harm the City's continued success in the programs it currently provides. The City would need to seek other funding for programs, but would likely be forced to eliminate a great deal of those programs.

I would like to take this opportunity to thank the subcommittee for allowing me to speak today on behalf of the community of Lawndale. I urge you to use what you have heard today and do all you can to stop any reduction or elimination funding for the current and future CDBG programs.

Thank you.

[The prepared statement of Mayor Hofmann can be found on page 80 of the appendix.]

Chairman NEY. I want to thank all of the witnesses. And I think by what you are doing today will be a great tool to help us for those of us who do not want the cuts, it will be a great tool to help us with this hearing and your voice today.

I have a couple of questions. And I am basing some of these off of the hearings in Ohio, and frankly probably one of the questions I am going to ask about the formula and the neediest, might better be answered by the second panel when I realized because they work with, you know, sometimes a little bit more intricate details.

But in the Administration's proposal, putting aside the dollar figure in the cut, but in the proposal is to have a shift to help the neediest of the needy. And do you have any comments on that change within the formula to do that or do you have any thoughts on it?

Mr. OVRUM. Let me just say quickly, and again I think, Mr. Ney, you are correct; the second panel might be better equipped to deal with that. There have been a number of formula proposals that we have looked at. We do not see any one of them at this point becoming the leading option in our mind. The thing that we want to urge upon you most is to fully fund the program and then we would be happy to work with you on an equitable funding formula.

Chairman NEY. If fully funded? Okay.

Mayor?

Mr. DORN. I do not agree with the formula that has been proposed; I think needy is needy. And I think we need to have the CDBG fund fully funded so that those individuals can be helped.

I mean, of course, if an individual is out on the streets, that individual is needy. If an individual is hungry, living in a shelter, that individual is needy. All of them need to be helped. I mean in a country this rich, why would we even consider saying well, this needy person we are not going to help, but this needy person over here we are going to help?

The formula does not work. Let us fully fund CDBG.

Chairman NEY. Mayor?

Mr. HOFMANN. Who are we to determine who is really in need? I mean, if you are in need, you are in need. And we, as a City, we look at that and we try to help everybody that we can help.

Chairman NEY. Well, the response back, and I asked this question because back in Ohio when we went to the rural areas like the Coalition for Appalachian Development, they felt that if the formula is altered, that they already try to take care of the neediest. And if the formula is actually altered, you would kind of restrict, maybe somebody is put in a category of poor, but they would not be in the neediest, and all of a sudden you cannot help them. They thought the flexibility—basically they are saying what you have said. And so I was just curious if the same feeling was out here on that.

I want to ask a question about micromini loans. Let me tell you where I am coming from on this. We have asked this question also back in Ohio, and again maybe the second panel deals with it more. But has anybody has embarked on the use of micromini loans?

After the United States went into Afghanistan, there was a whole "big picture" attempt to fund certain things through the United States Department of Commerce. And we found out that micromini loans were helping, especially in the areas of helping the women who weren't allowed to read all these years or to own a business. And it is something that maybe surprised people when they heard about it, the theory being used in Afghanistan. We have been using it for years back home because the micromini loans are sometimes $100, $200—under $1,000. So back home some of the groups have been using these micromini loans in Ohio. And I was just wondering if any of you have any familiarity with them with them or the use of them, or have they been used here or not?

Mr. DORN. We have used micromini loans for small businesses that need money for a short period of time. Micromini loans have been very vital to some businesses just getting started. And we have used those, yes.

Mr. OVRUM. And Mr. Graves will speak to what we have done in Los Angeles on that during his portion.

Chairman NEY. Yes. One question I had, I want to ask of HUD, but one of the things about assessing the program is the argument we hear out there that HUD is still using COBALT as the process. And I guess information to be transmitted to CDBG participants by computer somehow, but HUD uses COBALT. And I did not think this was accurate. Believe me, I am the last person to be a computer whiz. I am a history teacher by degree, so I am not into it. But we do hear comments, well, HUD is using COBALT, so it is an old, old system in the process of electronics, and therefore it is not an accurate gauge of the effectiveness of CDBG,

Assistant Secretary PATENAUDE. Thank you, Mr. Chairman.

HUD is currently revising the IDIS system. And by the fall of 2006, we will move to a web-based program or platform, if you will. And I am not a computer tech, but I understand it is currently a COBALT mainframe.

Chairman NEY. Yes. Because if I can remember, I hope I have my years right, but I think in 1999, Rick Lazio, I think, was head of the Housing Subcommittee. But HUD was revising it back in 1999. So that is my institutional history. And I am not trying to get you here. I am just saying I think I heard that back in 1999.

Assistant Secretary PATENAUDE. Mr. Chairman, if I may, the Secretary of HUD recruited a top talent. We have a new Chief Information Officer, Lisa Schlosser. She is personally committed to this. We have biweekly meetings with the contractor that is handling the revisions to IDIS. And I can assure you that this time HUD will get it taken care of.

And as I said, by the fall of 2006, it will move to the web-based platform.

Chairman NEY. By the fall of 2006?

Assistant Secretary PATENAUDE. This fall.

Chairman NEY. Okay. Well then, what about some of the comments people have made that the system is not as up-to-date as it should be, and it is not accurately portraying the use of CDBG or its effectiveness; either way, I mean, you could argue it.

Assistant Secretary PATENAUDE. We can currently tell you what CDBG is being spent on. But with the implementation of the performance measurement framework, we will be able to accurately gauge the successes the CDBG program is having.

Chairman NEY. Yes.

Assistant Secretary PATENAUDE. And we will fully implement the performance measurement system in fiscal year 2007, but we will begin workshops this May. And the workshops will continue through the fall so that we can successfully implement this new system.

Chairman NEY. And I appreciate that. And I do not want to be putting you on the spot, because you are not OMB, but OMB is saying that CDBG is not effective. So if OMB is saying that, are they getting that from HUD, or has OMB just made that statement and not utilized the uses in the right way? What do you think about OMB's statements?

Assistant Secretary PATENAUDE. As you know, the program was PARTed, which is an OMB tool to rate the effectiveness of the

CDBG program 2-plus years ago. And, unfortunately, the program was rated not effective under the current part system.

The Office of Management and Budget was instrumental in the development of the performance measurement framework, so I believe that this is one step in the direction that OMB supports.

Chairman NEY. So OMB thinks it is not effective, then does HUD think the program is effective?

Assistant Secretary PATENAUDE. We are implementing the performance measurement framework so we can accurately gauge what the program's effectiveness is. And OMB was a partner in that. The stakeholders were involved.

Chairman NEY. Yes.

Assistant Secretary PATENAUDE. And it was a 2-year process developing this. And I believe the performance measurement framework was developed in response to the PART on the program.

Chairman NEY. So actually it is kind of up in the air then if HUD has not determined whether it is effective or not, and people would tend to judge, I think, a little bit more HUD's determination of the program than OMB. I am talking as a Member of Congress. OMB says a lot of things. But it is hard for me and other people dealing with this to visualize how OMB can say that it is not effective when HUD itself really is not in the assured position yet of determining how effective it is because you are trying to upgrade the systems to make that determination. And so I just wonder how OMB could have decided it. It just seems that OMB would be flawed in coming out and saying that this is not an effective program.

Assistant Secretary PATENAUDE. Well, as you know, the PART is a tool that they used, and it is obviously not a perfect tool to gauge the effectiveness of a program. And the same PART is used to evaluate every Federal program. And as a result of that score, OMB engaged in dialogue with HUD to develop this performance measurement framework so that we can accurately gauge.

Chairman NEY. Yes.

Assistant Secretary PATENAUDE. Again, we have seen many, many successes with the program, but we do not currently have a system in place. We are implementing it right now so that we can assure the taxpayers that the money is being used wisely.

Chairman NEY. It just seems that OMB has jumped the gun to say it is not effective when they are trying to communicate with HUD to see if it is effective.

Just to go back in a little history with OMB, they had deemed that we could severely cut back the black lung clinics because we have less coal miners now. And, of course, black lung is something people got 25 years ago. We fought that when President Clinton was in office, and when President Bush was in office, so we fought under two Presidents. We argued with OMB because they kind of just talked to somebody and deemed well, there are less coal miners, without talking to Health and Human Services to find out the long term effects of pneumoconiosis, which is black lung.

And so you look back on some of their history and how they make decisions. Now, sometimes they will have a more precise model. But I think this is another case where OMB, if you do not have a system kind of perfected it as HUD to determine the effec-

tiveness, I just do not know how they could have had a 2-year kind of sit down on this, OMB, and deemed that the program is not effective. It seems like they should maybe listen more to what you all developed by 2006, I would assume.

Assistant Secretary PATENAUDE. Well, they were a partner at the table. And I do believe that they, by being a partner at the table, they were at all of the public interest group meetings. I think they do support the reform of the CDBG program, and part of that reform is the implementation of the performance measurement system.

Chairman NEY. I should explain, I am sorry, to the audience. I apologize because of words we use in Washington, D.C., a lot. But OMB is Office of Management and Budget. So I should explain. I am sorry for not explaining that in the first place.

I will stop because I do want to get to our ranking member. But one other question I had, do you have any comment on the neediest of the needy and the formula, any comment on it?

Assistant Secretary PATENAUDE. The current formula is flawed. As you know, the demographics have changed and it has been 30 years since the formula was developed. And we can use the examples of St. Louis, Detroit, and Miami, where we have an aging housing stock. Communities actually benefit from that. I am a native from New England and we all know that in New England, the pre-1940 housing is very, very valuable, but yet New England benefits from the pre-1940 housing.

We look to Detroit, that has demolished much of the pre-1940 housing. The pre-1940 housing, when it is demolished, works against them because the need is not there.

Chairman NEY. Okay. Just for the record, explain the 1940, what it is.

Assistant Secretary PATENAUDE. Housing that was developed prior to 1940 is part of the current formula, and that is what is creating this distortion. And, obviously, you know the older cities benefit from this when indeed, many of the pre-1940 housing in Boston and even in Washington, D.C., are very high-end housing now. It is very expensive to rehab that housing. So that is part of the distortion.

So we look at communities, the example I cited in my opening remarks. We have communities with very different needs receiving the same amount. So when we talk about targeting to the most needy, the formula that we propose would fix the current distortions.

Chairman NEY. Thank you.

Ms. Waters.

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

Let us continue with trying to understand how you make decisions. First of all, let us recognize that last year's budget eliminated CDBG. Was that decision based on performance studies?

Assistant Secretary PATENAUDE. I was not in this position last year. As you know, I was confirmed on April 15th of last year.

Ms. WATERS. But surely they told you what they were doing. No?

Assistant Secretary PATENAUDE. I was not involved in the budget process for fiscal year 2006.

Ms. WATERS. All right. Then I will not pursue that line of questioning. I am trying to find out how decisions are made.

So the budget that we are dealing with proposes a substantial cut, 20 percent cut. But tell me how that relates to performance criteria measurements that you entered into the Federal Register on March 7th. Did you enter—

Assistant Secretary PATENAUDE. We did. We published the final notice of the performance measurement framework.

Ms. WATERS. The final notice of the performance measurement framework—what?

Assistant Secretary PATENAUDE. The performance measurement framework.

Ms. WATERS. Framework.

Assistant Secretary PATENAUDE. That is the system that we will work with our grantees.

Ms. WATERS. This is where HUD will be conducting these 15 workshops?

Assistant Secretary PATENAUDE. We will be.

Ms. WATERS. Tell me about those.

Assistant Secretary PATENAUDE. The workshops will be for our grantees. They will be throughout the country. We will have one here in LA in August and we will work with the grantees to successfully implement this program. Many, many grantees already have performance measurements in place, but this is to put a uniform system in place and it will be required to enter this information into the system.

Ms. WATERS. Well, give me an example of what you will do when you come to Los Angeles?

Assistant Secretary PATENAUDE. The workshops that will be conducted, they will be technical workshops, I think, on how to enter the—

Ms. WATERS. Are you going to invite all of the grantees to a workshop?

Assistant Secretary PATENAUDE. I believe that all grantees will be invited to these workshops.

Ms. WATERS. There will be a number of workshops or one workshop?

Assistant Secretary PATENAUDE. We will be conducting 15 workshops for this.

Ms. WATERS. One of them will be in L.A.?

Assistant Secretary PATENAUDE. I believe just one is scheduled for L.A. at this time. If I can check with my General Deputy—

Ms. WATERS. Okay. All right. Let us see. You will have one here.

You will be inviting some grantees or all grantees?

General Deputy BREGON. All grantees.

Ms. WATERS. Okay. What will happen when all of the grantees come to this workshop? Tell me how it works.

Assistant Secretary PATENAUDE. We are working with the contractor right now to develop the curriculum, the training curriculum. Part of this will be technical on the revisions to the IDIS system, which are very much welcomed. The IT system will be much easier to use for the grantees who will be part of it.

The performance framework, how to enter the activities into the system. And we also will be training all of our CDBG directors. As

you know, we have 40 CDBG directors located throughout the country so that the technical assistance will be available from HUD as well as our technical assistant providers.

Ms. WATERS. The information that you will be entering into the system, is that information that you will use then to evaluate particular programs?

Assistant Secretary PATENAUDE. That's correct. When a grantee puts together their plan and submits their annual performance plan, we will be able to actually look to see were the results achieved that they set out in their annual plan.

Ms. WATERS. All right. So that I am very clear about this, and I may be mixing up some of the terminology, when you talk about the grantee, are you talking about the City of Los Angeles, the County of Los Angeles, or all of the programs that are involved with the City and the counties?

Assistant Secretary PATENAUDE. The grantees are the entitlement communities that receive the grants directly from HUD. And then the States are also grantees.

Ms. WATERS. Okay. So, the City of Los Angeles and the County of Los Angeles will be the grantees receiving this information. Now, the information that they are inputting into the system is going to be evaluated in some way. Can you explain that to me a little bit?

Assistant Secretary PATENAUDE. Obviously, it will take a year for this to accumulate the information. But the grantee submits a plan to HUD, what they intend to do, with their CDBG dollars. At the end of that year they submit another plan. And by looking at what is now in the new IDIS system we were able to compare what they set out to do and whether or not they actually achieved the results.

Ms. WATERS. Let me ask if our staffs from Congress have been involved or will be involved in any way in this training, or will be trained on what you are doing?

Assistant Secretary PATENAUDE. I do not think we have plans for that, but I think it is a wonderful idea. And we can reach out to the Congressional staffers and include them. We have 1,100 entitlement communities that will be trained, so we can certainly reach out to the staffers.

Ms. WATERS. We need to know what you are doing at HUD.

Mr. Chairman, do you think it would be possible that we could send a letter to the Secretary requesting that our staffs be brought up to date and trained on what is going on with this evaluation process, this performance measurement criteria?

Chairman NEY. We can do that without objection. And then it will be transmitted to the members of the subcommittee.

Ms. WATERS. All right. I think that is going to be very important.

Now let me understand a little bit more the example that you provided at the beginning of your testimony, where you compared Santa Monica to Santa Maria, was it?

Assistant Secretary PATENAUDE. Correct.

Ms. WATERS. You talked about the income of Santa Monica compared to Santa Maria. Are you trying to say to us that if there are enclaves, support people in Santa Monica, that somehow they will not count because Santa Maria should have much more money because they have many more poor people?

Assistant Secretary PATENAUDE. The new formula does have as a basis poverty. We are looking at a better distribution of the funding. So the communities that have less distress would receive less CDBG dollars, the communities with greater distress would receive a greater amount of money.

Ms. WATERS. In this evaluation process, is it possible that there would be communities that are now receiving money that would not receive funds because HUD would consider the population of the poor not poor enough, or too small a population to be considered?

Assistant Secretary PATENAUDE. Currently, we have over 1,100 entitlement grantees. And it is possible, and again we would need to finalize this piece of legislation, but it is possible that grantees would no longer be eligible as an entitlement community but would be eligible to compete for funds through their State.

Ms. WATERS. This is with your challenge grant?

Assistant Secretary PATENAUDE. No. The challenge grant is separate. The challenge grant would be another opportunity for distressed communities to receive additional CDBG funding. But communities currently in Chairman Ney's District, his communities, he does not have any entitlement communities; his communities receive their CDBG dollars directly from the State.

Ms. WATERS. Discuss the challenge grant a little bit more so that I can understand it.

Assistant Secretary PATENAUDE. The challenge grant is introducing a competitive, not competitive in the traditional sense where you would submit an application, but competitive in the sense that communities that have made tremendous progress, you know, leveraging private dollars, concentrating CDBG dollars would be eligible for a challenge grant which could be up to $200 million is what is proposed in the President's budget. Certainly one community would not be eligible for that, but many communities.

Ms. WATERS. When you talk about leveraging private resources are you talking about poor communities such as Santa Maria trying to have access to private capital, private resources by which to be eligible for a challenge grant?

Assistant Secretary PATENAUDE. That would be one factor. But we would be looking at a community to see how well they used all Federal resources concentrating in a distressed neighborhood.

Ms. WATERS. So what if Santa Maria, this very poor community with $13,000 incomes, did not use it as well, what would happen?

Assistant Secretary PATENAUDE. They would not be eligible for the challenge grant.

Ms. WATERS. But they would still be eligible for a CDBG?

Assistant Secretary PATENAUDE. That's correct.

Ms. WATERS. So those communities who have relationships with the private sector who are able to attract private capital, who are able to be involved in economic development activities where there's private participation would be eligible for challenge grants?

Assistant Secretary PATENAUDE. They would. But leveraging the dollars is not the only criteria. We currently have neighborhood revitalization strategy areas, we have over 250 of them. They are designated by our CDBG offices. Those neighborhood revitalization strategy areas, CDBG are being concentrated in that area. And

that is what we would be looking for in the challenge grant. So they would need to have a plan, and at some point an established track record of concentrating dollars for the greatest impact.

Ms. WATERS. Finally, given what you propose to do in examining a community's performance or ability to leverage, etc., how did you come up with the 20 percent cut for the 2007 budget year?

Assistant Secretary PATENAUDE. Secretary Jackson said in the hearing 2 weeks ago, the Secretary made that recommendation throughout the budget process. And the $3 billion CDBG number was not stand alone. When they developed the budget it was with the consideration that there would be reform to the program. So by targeting the dollars the Administration believes that the $3 billion in CDBG funding is sufficient to meet the community development needs.

Ms. WATERS. So what you are basically saying is you did not have any real criteria? You did not have any real way by which you evaluated this? The Secretary pulled it out of the air?

Assistant Secretary PATENAUDE. I think the Secretary puts a great deal of thought into the preparation—

Ms. WATERS. Oh, I am sorry. I did not mean to ask you that. I know you cannot agree that the Secretary pulled it out of the air, but the real question is you did not have any way by which to evaluate the grantees or their programs that could lead you to that kind of conclusion at this time?

Assistant Secretary PATENAUDE. I do believe a lot of thought went into developing the budget—

Ms. WATERS. No. I thought you were not involved in the budget. I mean, I want to know what the criteria was for the evaluation. How did you do performance evaluation that would lead you to the conclusion that 20 percent of the CDBG funds should be cut?

Assistant Secretary PATENAUDE. I do not believe it was based on performance. When we proposed the fiscal year 2007 budget for CDBG we were talking about a formula revision. And that was the number that the Secretary submitted to the Office of Management and Budget—

Ms. WATERS. Well, tell me about the performance, the revision of the formula, how did that work? How did that lead you to a 20 percent reduction? Describe to me how you revised the formula that led you to the conclusion that CDBG should be cut by 20 percent?

Assistant Secretary PATENAUDE. I am not sure there is a direct correlation between the 20 percent—

Ms. WATERS. I am not either, that is why I am asking you. I am not either. Twenty-seven percent I am being told. I do not know how you got to that.

Assistant Secretary PATENAUDE. It is a 20 percent reduction. The 27 percent, you have to take the earmarks and the setasides out of it. So for the formula portion of the program it is a 20 percent reduction from fiscal year 2006.

Ms. WATERS. Well, let me just ask this: If in fact we really did not have the kind of evaluation or the kind of criteria for evaluation to make that determination, is it possible at all that we could not come up with a 20 percent cut for 2007 year? And let us look at performance criteria and even formula revisions to see what we

come up for the next budget year. Is it possible not to move for 2007 and is there anything that we could do here today that would help you to say to the Secretary that these cuts will be extremely harmful, unexpected at this time and detrimental to our communities and we would ask that they would not be pursued? With the performance criteria and CDBG formula revision you must show what kind of changes you would like to make.

Maybe after you do the real work you may go in the opposite direction. Do you think that would be reasonable to request of the Secretary?

Assistant Secretary PATENAUDE. Well, as you know, Secretary Jackson worked very, very hard to keep the CDBG at HUD, we're very, very pleased that it is in our fiscal year 2007 budget. He fully supports the program. And as he said in a hearing before your committee, you know the funding level is up to the Congress. This is the proposed amount for CDBG that the Administration has put forth.

Ms. WATERS. Well, we know that. What we would like to do is work with you and not have to fight with HUD. As you know, we have significant bipartisan support for full funding for CDBG. And some of our strongest advocacy is coming is coming from the Republican side of the aisle, where Members have little towns and cities that depend on CDBG money for their infrastructure.

I brought attention to Lawndale as one of the smallest cities in my district, because they depend heavily on CDBG for infrastructure. He talked about the traffic problems that they have and how they are able to deal with those, using CDBG just as my Mayor from Inglewood.

So I will just leave you with this; I think what we are going to hear today, and what the people in this room want to hear is:

(1) We cannot afford the cuts; and

(2) We understand when Departments, Agencies, or this Administration would like to evaluate what is going on. But we really do understand the difference between some reasonable or credible evaluation and just some kind of speculation about whether or not programs are meeting the needs or whether or not the formula is correct.

So, I would like to say to you that one of the things you can do that would be very helpful for all of us on both sides of the aisle is to say, you know I really do think before we do any cuts we ought to be able to justify them. Otherwise, we're just not believable. Okay?

Assistant Secretary PATENAUDE. The fiscal year 2007 budget has an increase for the Home program, the Continuum Care, those are our homeless programs. The SHOP program, which funds the self-help such as Habitat for Humanities. So we did see increases in other programs in the Office of Community Planning and Development for fiscal year 2007 that will also serve the communities in need.

Ms. WATERS. Okay. I understand. And while we appreciate the other programs, we need those, plus we need CDBG. And while you identify that you have those programs that are continuing, you are cutting other programs. Are you not cutting Brownfields also?

Assistant Secretary PATENAUDE. We are consolidating the Brownfields program. It is an eligible use right now under the CDBG program.

Ms. WATERS. Would you like to tell me what other programs you are cutting?

Assistant Secretary PATENAUDE. The Section 108 loan guarantee program was consolidated into the CDBG program.

Ms. WATERS. Consolidated? But do you understand Section 108 is extremely important to economic development? My City of Inglewood was able to expand its business community by reconfiguring the median in its main thoroughfare of Market Street, which helped to bring more businesses onto that community. And it has just been booming. Section 108 is really important. And do you know why I really like it. It was my first big accomplishment as a Member of Congress to keep it from being scored so that it could be used for cities. And so I am very partial to the Section 108 Loan Guarantee. And it is a very special program for me and I think for the cities.

So what else did you cut?

Assistant Secretary PATENAUDE. The rural housing program is also being consolidated into the CDBG programs.

Ms. WATERS. Where you use "consolidated", I use "cut." Now where are we differing?

Did you know the rural program was being consolidated, Mr. Chairman?

Chairman NEY. Clinton, did we know the rural program was being consolidated?

Our counsel tells me we that knew it was being consolidated.

Ms. WATERS. Okay. So what else are you consolidating?

Assistant Secretary PATENAUDE. Those are the three programs that will be consolidated with the CDBG reform.

Ms. WATERS. Okay. So thank you very much. And I am going to move on.

Assistant Secretary PATENAUDE. Thank you.

Ms. WATERS. Let me just thank our Mayors. I see that Supervisor Yvonne Burke has come in, Mr. Chairman. And we would like to have an opportunity for her to give her statement.

I just want to say to my Mayors, because I know that they probably have to leave, that it is very important for you to work very closely with your Members of Congress. I know you do. We work very closely together. But if we are to engage the Members of Congress in the struggle, they have to be aware of the importance of these programs to their districts.

Many Members will go along and they will say yes, they should be refunded. But they do not have the experience of really knowing what these programs are doing. We do because they are in our jurisdiction. This is the subcommittee of the Financial Services Committee that has the responsibility for oversight. But when you have members who do not serve on this committee, it is important for you to do several things.

(1) It is important for you to get together with the Members of Congress and to tell them what your ideas are about funding programs and developments ahead of time. Let us not wait until you need gap funding and then you are coming for an earmark to try

to keep something going that you started. Let us not wait until there are problems with some of these funding ideas to get to the member.

In the City of Los Angeles, Mr. Ovrum, there was some talk today about the affordable housing trust fund. We like the idea, but if you are going to use CDBG or Home monies with their programs and you are announcing the program, the Members of Congress should know about it. We do not want to read about it in the newspaper. We want to know about it, because this is money we fight for and we work very hard for.

In Los Angeles, for example, you have this huge delegation. Some of them sit on the Appropriations Committee, like Lucille Roybal-Allard, you want her involved in this housing trust fund. We do not want to see that a housing trust fund is being announced and we are hearing about it for the first time.

That also goes for the development projects in our districts. If you are working with developers on projects, you and CRA, do not let us find out about it through the back door. We want to hear about it upfront so that we will understand not only how the dollars are being spent, but, in many cases, how we can be very helpful, in other cases how we can add funds.

Now, I have a request from the City of L.A. for some gap funding for a project at Vermont Manchester—no Manchester. You did not do that. Broadway Manchester. It was to build a parking facility. I did not even know you were developing the parking facilities. And I am not going to add that to my earmark requests to assist you with that because you are coming at it too late, and I have other earmarked requests that are in line that I have to pay attention to.

So the message is this, mayors: Include your Members of Congress early on and particularly those who, again, do not have a lot of detail about these programs. Otherwise, those of us who are sitting here working for CDBG and Section 108 and home programs, etc., we are going to start to get more involved in writing into the appropriations legislation what can and cannot happen; so we would appreciate that.

And if you would take that back. I see that your CDBG Director is here. We would appreciate it very much.

Thank you very much.

Yes, sir?

Chairman NEY. And any of the Mayors, of course, who have to leave, but we have Ms. Burke.

I do have, without objection, a statement for the record from Jan Perry, council member, City of Los Angeles

Chairman NEY. And we welcome, we actually met you before out here, a former colleague of the U.S. House, the Honorable Ms. Burke.

STATEMENT OF YVONNE BRATHWAITE BURKE, DISTRICT 2, MEMBER, LOS ANGELES COUNTY BOARD OF SUPERVISORS

Ms. BURKE. Well, thank you very much to Chairman Ney and also to our Congresswoman Maxine Waters.

We are certainly pleased to have you here. It is my pleasure to have a chance to share with you some of my concerns.

My remarks will discuss the importance of the Community Development Block Grant, and maybe I should say, you are in our 2nd District here, Exposition Park, it is in the 2nd District. We have both of our Mayors here are part of the 2nd District. And we are very pleased to have you here because these are issues that are of vital concern to us.

And today you will also hear from Carlos Jackson, the executive director of the County's Community Development Commission which administers our CDBG program on behalf of Los Angeles Urban County.

Although you are receiving testimony on several aspects of CDBG, I am going to comment specifically only on the formula program.

CDBG programs play a key role in improving the quality of life for low- and moderate-income residents of Los Angeles County. I am deeply concerned about the proposed cut for Federal fiscal year 2007. The proposed 25 percent reduction in funding will be a loss of $7.7 million to the Los Angeles Urban County program. As you know, we have already been reduced annually since 2001. In 2001, our entitlement was $39 million, and with the 24 percent proposed cut for next year, our entitlement will be reduced to $23.1 million. That is a loss of $16 million in a 6-year period. It is vital that Congress maintain formula funding for the CDBG program at the $4.3 billion to improve the quality of life of our citizens.

I want to acknowledge the past support of Congresswoman Waters for our programs and for this large urban program. And in its 32 years the program has been used constructively to provide housing, community and economic development, and public service projects. Our funds are normally leveraged with funding from other sources to develop affordable housing. We have been able to bring in tax credits, we are able to bring in banks. The only way we are able to utilize the funds that we have is because anyone who comes in to move forward with one of those programs, they know that we are leveraging other funds and they are going to have to leverage other funds to make it viable in Los Angeles County where land is expensive, construction is expensive, and where it is necessary to have affordable housing. Our biggest problem, we have 90,000 homeless and it is basically a housing problem, affordable housing.

So we have to do this kind of development. And we also support business.

And I would like to give you one example. I believe this is right outside of your District, but Martin Luther King Hospital, where we have the Los Angeles Eye Institute, which has been involved with $21 million multi-discipline health care facility that will be adjacent to Martin Luther King Hospital. And this eye institute will provide, not only is it an eye institute, this is going to meet the requirement of Martin Luther King to have a place for doctors to hold their offices.

And what has happened in our other hospitals, there is the opportunity for a practice plan. Martin Luther King Hospital did not have a practice plan. This will institute a practice plan with a facility adjacent to the hospital where those doctors will be able to have their practice and they will not have to go miles away from the

hospital in order to carry that out and to make it competitive with other hospitals.

Now this money is a combination of 108 Loan Guarantees and Economic Development Initiative Funds. And $3 million in private funding to construct a facility that will provide health services to low- and moderate-income people.

In addition, CDBG funds are allocated for important "public service" activities. Our residents benefit from public service activities: Meals on Wheels for seniors; after school programs for youth; drug intervention; homeless assistance; and domestic violence counseling. The Los Angeles County Board of Supervisors values CDBG in that it provides the flexibility for us to prioritize the allocation of funds to address our local needs. And just like you said, we want to know about what's going on.

I believe that we provided to you a list of all of those funds that we are allocating, but I just want to talk about a couple. UJIMA. UJIMA came to the County for $1 from HUD when HUD no longer—when they had received it back in a foreclosure. We now have a proposal out to totally redo the UJIMA project. And there are proposals that have been accepted and that is moving forward.

The Salinas property that we acquired from Compton High School, the school district when they no longer wanted that land. We have proposals out. We have not been able to arrive at those. But these are some of the things. We purchased the land from Compton and now we are moving forward for a major housing project there and the proposals have not been accepted totally, but it is in outreach to the community. And I am sure you will be hearing from some of the members of the community. Ninety-seven units of condo projects there.

So I want to thank you for conducting this field hearing and to restate this is a vital program to Los Angeles County. It has been successful, it has been effective in providing services to low income people. And I am confident in the course of this hearing that you will realize how important CDBG is to the County and also some of the other programs that you discussed with HUD. We cannot afford to suffer the loss of any more in terms of drastic cuts.

And I join all members of the Board of Supervisors in looking forward to continuing to work with your committee to assist in anyway we can to move forward where we can continue to have this funding that is vital.

Thank you.

[The prepared statement of Ms. Brathwaite Burke can be found on page 62 of the appendix.]

Ms. WATERS. Thank you.

Chairman NEY. I really did not have any questions. I want to thank you for coming.

I did want to follow up on something, though, that the Congresswoman has mentioned, I think it is important and actually it was raised during the hearings in Ohio, and it is earmarks. A lot of members are afraid to say the word "earmark" today. It is a thing you're not supposed to say.

And as I made clear, we have a cancer center being constructed in Knox County and that is because we talked with local officials, they communicated to our office, and I put it in. In fact, you can

put my name next to any earmark and piece of legislation that you want. Not you, but the government. But I always make it clear that I do not think the U.S. Government would have said wow, I really think the people in Knox County who are pretty isolated need a cancer center, let us just do one. No. It is because the local officials, or I could name you places you have never heard of that $20,000, $40,000 helps to bring water. Because I have areas that do not have potable water. There is no water in people's houses. They get it out of wells, and maybe the wells were destroyed. They now go down the road and they get it out of a spring. We have places like that. And again, you know, I do not think the Federal Government is going to say we giveth water today to Ohio or other places.

And so I am mentioning earmarks, and I will put my name on them. I mentioned earmarks, I know the Congresswoman will. But I think the Congresswoman raises a really good point, too. The communication is a turning point. And with the attack on the funds and the cuts on the funds and what we are trying to do to help people back in the districts, the communication at the local level to the Member of Congress is absolutely more critical than it has ever, ever been. Because we are not going to hear what people are doing. And I have said this to our local government officials on both sides of the aisle. We are not going to hear it out of the Federal Government. They are not going to call us up and say guess what is going on down in the district.

So I just wanted to dovetail in there. I think it is more critical, again, then ever before. Right now we are battling the money, but it is again the process of it, too.

Ms. WATERS. Well, no, I hear about Ohio. My husband was born in Zansville.

Chairman NEY. Well, I live 30 miles from Zansville. Do you have any relatives back there?

Ms. WATERS. He has. They are not mine. So I hear plenty about Zansville.

Chairman NEY. By the way, well we have learned a new term, too. If things do not go right in November, I think that the line all of us in elected office ought to use is I did not lose, I was consolidated.

Ms. WATERS. We learn something new everyday.

I want to thank Supervisor Burke for coming today. I know how busy she is. And I do know about a lot of the programs, and I will talk with you a little bit more about the Martin Luther King project. We certainly cannot talk too much about it today, because it would take us all day to do that.

But I want to ask you something. I think I read that L.A. County has come up with a very ambitious program for the homeless.

Ms. BURKE. Yes.

Ms. WATERS. And that you are spending County revenue to help deal with this problem. And I suppose you may be putting together money from wherever you can pull it from to deal with this problem. And as I understand it, you're trying to do something to get rid of the concentration of the homeless in the downtown area and to ask communities to accept their share of responsibility in dealing with the homeless. Any of these dollars Federal dollars?

Ms. BURKE. For the most part, these are our general revenue dollars. We took out of our $80 million that we're taking out of—this housing trust fund is a motion that Supervisor Molina and I introduced some time ago saying that we need to have a housing fund that is separate. However, we will call on Federal dollars. Because first of all, if we have family assistance and we have stabilization, we are going to have to have some of the mental health dollars, we are going to have to have some of those dollars that go for general— well, our general relief is local, but we will be calling upon—we have to use Federal dollars to provide many of the services that will be provided.

This housing fund is a commitment from our general fund, a $15 million ongoing commitment, not 80 million every year. $15 million ongoing from our general fund. Now, of course, you may immediately say well, will that take away from some of your health dollars that you use from the general fund? We feel that in a sense many of the people we are talking about go in and out of our hospitals everyday. These are the people that when someone wants to get rid of them, they call for an ambulance to take them to the hospital.

So there are Federal dollars. But basically this is a general fund revenue source.

Ms. WATERS. So what we are looking at, we have the City that has put together or extended or a housing trust fund. The County will have its own housing trust fund. And the two of you will work with each other.

Ms. WATERS. Well, that is what I was wondering. The two would be working together.

Ms. BURKE. Right.

Ms. WATERS. And have they bought into your plan and you bought into their plan about how you are going to disperse from downtown?

Ms. BURKE. Well, there is a very strong feeling, I think, from the City and—well, let me say this. The City, part of their program is a facility that is in the 2nd District but is really close to Skid Row. And that is controversial because there is a difference on the Board on terms of whether some people believe there should be any kind of additional facility there. But I suspect that will all be worked out.

I have committed to support the facility. I understand that we do need to disperse, but you also have to have services where the people are. You know, all of the people are not going to leave. And it is a very difficult thing to say we are going to have all the services far away when you have the people right there. But I support the idea of having facilities in every district, all five districts. But at the same time we do have the people who are right there.

Ms. WATERS. One of the things that I am going to ask of the Mayor and of the County Board is that you include us in those discussions.

Ms. BURKE. Certainly, yes.

Ms. WATERS. Because I was involved about a year ago, and after the fact in a plan that Ms. Tobacca was trying to advance.

Ms. BURKE. Oh, yes.

Ms. WATERS. And all of a sudden the resident councils were up in arms. And we ended up in a meeting one night with over 1,000 people at Crenshaw Christian Center where the community was opposed to the plan that Ms. Tobacca was advancing.

I think that if we have an opportunity to get involved with the discussions early on, we can help come to some conclusions about where facilities could be or should be located, or ways that we could at least communicate with the communities rather than hearing about it on the tail end. Because normally what happens if we are not involved and we hear about it at the last minute, we just go along with the people, whatever they say. You know that is the easy way out. But if we are involved in planning and development, we can defend a good decision. So I am going to ask the Mayor that we be involved.

Ms. BURKE. Right.

Ms. WATERS. And I would like to ask you that you be sure and get our staffs involved.

Ms. BURKE. Right.

Ms. WATERS. So that we can help in the development of the plans.

Ms. BURKE. We certainly will do that. But it is not going to be easy. There are not going to be very many communities opening their arms. But I do want to say one community, we had a lot of problems when there were homeless people coming to Ted Watkins Park during the day.

Ms. WATERS. Yes.

Ms. BURKE. The church, Grant AME, came forward and has provided a facility for people there so that the homeless can go there rather than going into the park. And the community there is very happy with that, they are accepting it.

So it is not going to be easy to find a facility location, but at the same time we would like to work with you.

Ms. WATERS. Okay.

Ms. BURKE. As we move forward to try to identify a location.

Now, a location that the Mayor is suggesting is not in the 1st District, it is in the 2nd District, but it is close to Skid Row and that is highly controversial.

Ms. WATERS. I am sure.

Ms. BURKE. Yes.

Ms. WATERS. Okay. Thank you very much. Thank you.

Mr. Mayor, did you have a last word you would like to leave with us before you leave?

Mr. HOFMANN. No, other than thank you very much for coming in.

Ms. WATERS. You are welcome.

Mr. HOFMANN. And letting us be part of this discussion.

Ms. WATERS. Thank you very much.

A round of applause for our first panel.

Chairman NEY. We will take a very, very short recess as the second panel sets up. And it'll be Mr. Clifford Graves, Mr. Carlos Jackson, Mr. Al Jenkins, Mr. Rudolf Montiel, Mr. Mitchell Netburn, Ms. Brenda Shockley, and Ms. Marva Smith Battle-Bey. And then we will go into our second panel.

And I want to thank the audience.

We will be right back.

[Recess]

Chairman NEY. The committee will come back to order. The short recess turned into a little bit longer one, but that is okay.

And we will go straight to the panel. We have:

Mr. Clifford Graves, general manager, Department of Community Development, City of Los Angeles, California;

Mr. Carlos Jackson, executive director, Los Angeles County Community Development Commission and Housing Authority of the County of Los Angeles;

Mr. Al Jenkins, project manager, CRA/LA;

Mr. Rudolf Montiel, executive director, Housing Authority of the City of Los Angeles;

Mr. Mitchell Netburn, executive director, Los Angeles Homeless Services Authority;

Ms. Brenda Shockley, president, Community Build, Incorporated; and

Ms. Marva Smith Battle-Bey, president and CEO, Vermont Slauson Economic Development Corporation.

Thank you. And we will start with Mr. Graves.

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

Mr. GRAVES. Thank you, Mr. Chairman, and Congresswoman Waters. My name is Clifford Graves and I am the general manager of the Community Development Department for the City of Los Angeles. And thank you very much for taking the time to hold this hearing here in Los Angeles. I think the turnout today, from the veterans to the kids, indicates the level of interest there is in this very important program.

And I am especially pleased that you came out now; I have been with the City about 3 years, long enough to develop a genuine sense of pride about what the City has been able to do with the block grant program over the years, and also to be extremely disturbed about what the future for the program might hold.

As you all know, the secret to the block grant success has been that while it targets a certain population, the most challenged part of our population, it basically it leaves it to local officials to tailor programs and set priorities that are best suited to their particular community, whether it is a town in your district, Mr. Chairman, whether it is the City of Los Angeles, the City of Lawndale, or whatever. And it is that ability to respond, to have the officials closest to the issue respond in an appropriate way. It is what frankly separates this program from most other Federal programs and it was the reason for the program being formed back in the 1970's.

Now, Mr. Chairman, you have talked about the typical city in your District. Obviously, Los Angeles would have a hard time fitting in your District, but we have not only a lot of people, some 4 million, but we have over a million people in this City who are under the age of 18. We have 100,000 young people between the ages of 16 and 24 who are out of school and out of work. And it goes without saying, that is more than most of the cities in this

country, so we are dealing with a problem of great magnitude. And when you add the complexity of this being probably the most ethnically diverse city in the country—41 percent of the population is foreign born, and 140 languages and dialects are spoken in the schools—it gives you an indication that the programs that the City puts into place to address the issues are going to be different here than anywhere else.

And the flexibility of the program allows it to adapt over time. It is not necessary to go back to Congress every few years to amend the program to deal with some new issue that has come to the forefront. Local officials can adapt things as needed.

For example, in Los Angeles, early in the program's life, as I understand it, the bulk of the funds were spent on capital projects, neighborhood facilities, and things like that. After the riots of the early 1990's, the City shifted its focus toward public services, trying to rebuild the social infrastructure of our most challenged areas. And that continues to be a priority today, but it has been recognized here that there is a growing gap in the economy between the kinds of jobs that are being created here, that Mr. Ovrum was referring to, and the skills of the workforce who should be meeting that need. It is hurting our economic development, and it also means, as Mr. Ovrum pointed out, that a large part of our population is not benefitting from this economic growth. Therefore, the Mayor and City Council have begun to shift parts of the block grant program toward economic development and marrying our economic development work with the work we are doing in workforce development through, among other things, the Workforce Investment Act.

The irony is that you know full well what is happening with the proposals for funding of the block grant; the same thing is happening in the Workforce Investment Act. Whereas in 1995, the City's allocation under the block grant was nearly $100 million, it is now down to $74 million this year, and it will go down even further. And if you add the effect of inflation, the City has about half as much purchasing power and half the level of services available to deliver now than it had 10 years ago, whereas the issues are getting more complex.

In order to address this, the City has sought to basically intertwine the block grant with the other things it does with its own funds, and with other outside funds. I would like to use just a few examples this morning.

In the community facilities area, the City passed a library bond issue some years ago which resulted in a renaissance in the public library system throughout the City. In the most needy areas, services and facilities a little above the standard were considered to be important, but could not be afforded under the bond issue, so many of the libraries in the most needy areas got special features and special facilities using Community Development Block Grant funds.

They were also used because, in many of our challenge areas, land acquisition was especially complicated and the block grant was just able to supplement a much larger amount of funds.

Similarly, there was one area of south Los Angeles that was very much lacking a facility suitable for supporting a major community center. So block grant funds were used to build the Rita Walters

Learning Center in south Los Angeles, which includes an alternative high school, a community center, and a number of other outreach services. Many of those services are funded by other programs, City funds, school district funds, and others. The block grant also funds some of them, but it was the block grant which made that facility possible, which, in turn, makes available a whole range of services that the community needs.

I mentioned the importance of rebuilding and strengthening the social infrastructure of the City. The City of Los Angeles has partnered with hundreds of nonprofit agencies around the City to deliver a wide range of human services, some of which you'll be hearing about from other panelists, but the block grant is the glue that holds these systems together.

We have molded many of these organizations into what we call family development networks, which are essentially consortia with common databases, and common client management, and we have 12 of them around the City. Their base funding is the block grant. But to use an example, we are using funding we get from the State of California's Office of Traffic Safety to use these agencies to promote traffic safety. And last year, we were able to give out 6,000 free child safety seats to needy families, and over 13,000 bicycle helmets to increase the safety of young people. Again, if it weren't for the block grant providing the infrastructure, these specialized programs could not work.

In the economic development area, it is very interesting. The money is used as either a stimulus or as gap financing to make projects that are badly needed become feasible. Probably the biggest success story we have had in recent years is that, as you probably know, there is an area adjacent to Skid Row and the modern downtown on the other side known as the Old Bank District. It's the former financial district of the City which includes a lot of multi-story, obsolete office buildings.

The neighborhood was unsavory, to say the least. CDD used to be located there until about a year ago. But the City was trying to figure out what could be done to stimulate development there. So two things were done. First the City passed what it called an adaptive reuse ordinance which eased certain requirements for residential developmental that were making the projects unfeasible. There still weren't many takers for that. Then one developer came forward with a proposal. The City provided a $5 million Section 108 loan to go against a $37 million project. That project was so successful that it is largely credited with kicking off what now some people are saying is about a $10 billion building boom in that part of Los Angeles. And we have not been asked to provide any more 108 funding after that first one.

We are using block grant in that same area in another way. While housing has taken off there, there is a shortage of commercial services. And so we are using what we call the L.A. Business Assistance program, which is a technical assistance program for small and emerging businesses to provide special marketing, business planning, and site selection services to retailers who want to locate in that area but run into problems—

Chairman NEY. I'm sorry. I have to note we do have a 5-minute rule for—

Mr. GRAVES. Oh, I'm sorry.

Chairman NEY. Literally, I could listen to you for another half hour because I think you are going down the right path and, actually, you provided me some food for thought on just a few things you said already.

Mr. GRAVES. Okay.

Chairman NEY. But we do have the 5-minute rule so we can get everybody in. But if you would like to just summarize what you were saying, the rest of your statement will be entered for the record.

Mr. GRAVES. Fine. There is a fuller statement that has already been provided for the record.

I would like to just conclude by saying again the important thing about the block grant program is its flexibility and ability to adapt over time. And you have had an interest in formulas and performance measures and so forth like that, and there are always ways to tinker with the program. But the important thing is keep targeted on who you want to serve and allow local officials the discretion to figure out how best to do it.

[The prepared statement of Mr. Graves can be found on page 71 of the appendix.]

Chairman NEY. Thank you.

Mr. Jackson?

STATEMENT OF CARLOS JACKSON, EXECUTIVE DIRECTOR, LOS ANGELES COUNTY COMMUNITY DEVELOPMENT COMMISSION AND HOUSING AUTHORITY OF THE COUNTY OF LOS ANGELES

Mr. JACKSON. Thank you. Good morning, Chairman Ney and Ranking Member Waters.

I would also like to express our appreciation on behalf of the County for your leadership, Mr. Chairman and Congresswoman Waters, and also Congressman Miller in your continuous support of the CDBG program.

I have also submitted written testimony regarding the concerns that we have on CDBG and the Administration's proposals. But I would like to go on with some spontaneous remarks after listening to the Assistant Secretary of HUD regarding their perception, their determination as to why they perceive a necessity to change the program as well the reduction.

One of the comments made by the Assistant Secretary was about success. All you have to do is look in this room and see the results of people who have been assisted or as well as prevention with the young people by putting them into positive programs.

I have been affiliated with the program for over 15 years, and there have been various challenges to the program over the years. But I sincerely believe, in my professional experience, that CDBG has been as Mr. Graves had indicated, really the glue in a lot of economic and community development activities.

There is sufficient regulatory compliance for those entities or entitlements that are not fulfilling their role. I wish they had stayed to hear some of the successes, because this is really about people and human beings. And by them leaving, I think they are missing

a major dimension as to why we are concerned about what is happening.

Chairman NEY. I just wanted to let you know, I will assure you that we will make sure that portions of this record will be provided to HUD.

Mr. JACKSON. No, I appreciate that.

Chairman NEY. But I understand your point; had they been here, it would have been better.

Mr. JACKSON. You know, we brought some charts to indicate the overall impact of our program. I mean, in 6 years we will be losing $16 million. Our program is different from an entitlement jurisdiction in that we are the Urban County Program. Not only are we concerned about the unincorporated areas of the County where we have approximately a million people, but also 49 cities like the City of Lawndale that received funding through us. These cities really do not have a lot of opportunities through the State to get funded, and so they rely on this type of funding to do housing, community development, commercial development, etc. It is very important to them, as well as to us.

HUD talks about performance. For every dollar we put into housing, there is a leverage of 3 other dollars. It's one to three. And that has been historically our pattern.

CDBG has to be leveraged to make it very positive and very productive.

L.A. County, our program, as I indicated we are going to suffer almost a 41 percent reduction in 6 years, as Supervisor Burke indicated. That is very hard to swallow in times of the demographic changes, the tremendous need on human services, social services, and more so, affordable housing.

I do not need to say much about affordable housing, but our median price of a house here is $565,000. We calculate that it takes about $140,000 annual income to afford the purchase of a home, and that really is beyond many of us at this point. Eleven percent of the residents of L.A. County can afford to buy a home. And so block grant is used for that purpose.

We have exceeded the performance measures of HUD in terms of their requirements. Almost 95 percent of our funds are spent on low-income residents. There is not an issue about our draw down rate; we are .81 percent, and the requirement is 1.5.

And, again, there are many entities like us who are very successful at implementing the program. I just do not understand how they arrive at these programmatic changes.

We support the 108 program. We hate to see it consolidated. But more so as you indicated, Congresswoman Waters, it is a cut. It is a consolidation into the block grant allocation. I also think that the BEDI is very important.

But on the 108, the cities that we work with, we have 11 participating cities who have used a total value of $56 million in 108's. And these are small cities that don't have the opportunity to accumulate a lot of funds at one time. So this becomes an incentive for them to get involved with revitalization efforts.

Because of time, I am just moving through the different things.

But I would like to say that we have not taken a position on the four alternatives in the formula. We are waiting for the actual pro-

posal from the Secretary to determine what the impact would be. But if there is any negative impact in terms of reduction in funding, we would oppose that. I think this area of Los Angeles County cannot endure any further cuts, cannot endure a 25 percent cut.

As to the wealthy communities, well, there are poor people throughout the County. And I think Mayor Dorn really made a very strong point. We are splitting hairs about who is poor. If you are poor, you are poor. And I think that is where we have concerns that we do have communities who could be perceived as being rich, however they do have a substantial number of seniors who are in need of services. Like, for example, the City of Santa Monica, which is not one of our cities, they are one of the concentrations of homeless and they are trying to address that.

So in conclusion, we support that the funding should be restored to the $4.3 billion nationwide. And we will hold back on our opinion yet to see what the formula will bring out by the Secretary. But it is very unfortunate to sit here in front of you to say we are going to suffer another $7.7 million reduction when our population is increasing, our poor population is increasing, as well as the homeless population. So many different needs and we are losing the ability to address those needs.

Thank you.

[The prepared statement of Mr. Jackson can be found on page 84 of the appendix.]

Chairman NEY. Thank you.

Mr. Jenkins?

STATEMENT OF ALVIN JENKINS, PROJECT MANAGER, CBA/LA

Mr. JENKINS. Thank you. And good morning.

I would like to thank Chairman Ney and Ranking Member Waters for inviting me to be here to represent the Redevelopment Agency.

The primary goal of the Redevelopment Agency for the City of L.A. is really to eliminate blight and create economic development and to assist in providing affordable housing within the area.

The CDBG funds have proven to be vital for the efforts that we have within the south L.A. area. Each of the 9 redevelopment project areas within south L.A. has relied heavily on the availability of these CDBG funds. As you know, most of the southern L.A. redevelopment project areas are unable to sustain themselves with the provision of increment funds or with program income, and that is really the nature of the project areas. And if the areas were able to sustain themselves, then there would be no reason to have redevelopment out there in those particular areas.

In many cases, redevelopment within south L.A. would not be possible at all without having these particular funds from CDBG.

I oversee three different redevelopment projects areas in the south L.A. area being the Crenshaw/Slauson and western/Slauson areas. And these HUD funds not only provide a direct source of funding, but also enable the leveraging of a great deal of private funding for these different projects in order to take place as well.

Improvements that are a direct result of CDBG funding include a variety of different types of benefits for the community. One, for instance, is providing commercial facade grant programs for those

areas such as Merk Park Village, Western Avenue, Crenshaw Boulevard, and Slauson Avenue. Those funds have been critical in providing improvements so that those small businesses which cannot afford it to make improvements on their buildings that they can take place which, of course, overall helps to beautify the South L.A. area.

Street scape programs within the area also have a direct benefit to the community with new street plannings, street furniture, and other types of improvements.

Another reason that we use the block grant funds are public improvements which are, again, throughout the south L.A. area.

Besides these community benefits, other major developments would not even be close to be able to be provided without use of these funds, including the recently built Chesterfield Square Retail Shopping Center on the corner of Western and Slauson where funds were used for that. The Marlton Square project which is just beginning and is under construction under the very first phases and relies heavily on those funds. And other major catalytic projects within the south L.A. area as well.

These projects and improvements rely on the use of CDBG, BEDI funds, Section 108 funds, and T&I. And the Agency has over the years experienced a significant decline in the amount of funds that are available. And these have been called out and mentioned by Cliff Graves and other speakers that we've had this morning.

Therefore, I would urge the committee to assist the improvement programs for South L.A. by resisting these budget cuts for fiscal year 2007 of the block grant funds.

Chairman NEY. Thank you.

Mr. Montiel?

STATEMENT OF RUDOLF MONTIEL, EXECUTIVE DIRECTOR, HOUSING AUTHORITY OF THE CITY OF LOS ANGELES

Mr. MONTIEL. Good morning Chairman Ney and Ranking Member Waters. I represent the Housing Authority of the City of Los Angeles, one of the largest in the Nation. And I appreciate this opportunity to discuss with you the importance that CDBG funding represents to the services we provide our public housing clients that number nearly 25,000 in our City.

The Housing Authority receives its funding through the City's allocation of CDBG. And just as communities are not just bricks and mortar, these dollars that we receive from CDBG are instrumental in allowing us to really improve the lives of the clients that we serve.

We have raised the percentage of AMI of our families from 17 to 24 percent, primarily because our families have developed to the point that they can become working families and move on through that continuum in the housing arena.

CDBG funding from the City helps us fulfill those responsibilities to our clients in the areas of safe, healthy communities, family self-sufficiency and most importantly, it even helps to support the Administration's ownership society; moving families into an ownership scenario.

Over the last 4 years, the City has reduced the level of CDBG funding for the Housing Authority by nearly 57 percent. They have

had to do this because of the cuts that the City has received. Today we receive just over $600,000 a year. And in 2002, we were receiving nearly a million and a half dollars.

The further reduction of CDBG funds proposed for the 2007 budget would inflict mortal wounds to already weakened client service programs in public housing. The competition for the shrinking services will affect educational programs such as tutoring after school in computer learning centers, employment programs such as job training and job fairs and family development in everything from anti-violence to parenting classes to events that we hold for seniors.

We are working very closely with the LAPD to address violence issues in our communities. But, again, just as communities are not made up of just bricks and mortar, safety in our communities is not policing alone. And it is the interaction with services and opportunities for the youth that will lead our communities to be safer and more liveable.

Given the extreme challenges Los Angeles faces from organized gangs, low levels of educational attainment, and the City's rank as the homeless capital of the Nation, funding to provide affordable housing services and to support healthy communities is as important to the City as it ever has been. And we urge you to help us restore full funding to the CDBG program.

Thank you.

[The prepared statement of Mr. Montiel can be found on page 94 of the appendix.]

Chairman NEY. Ms. Battle-Bey?

STATEMENT OF MARVA SMITH BATTLE-BEY, PRESIDENT AND CEO, VERMONT SLAUSON ECONOMIC DEVELOPMENT CORPORATION

Ms. BATTLE-BEY. Good morning. I want to say welcome to Chairman Ney, and to our very own Congresswoman Waters. I am Marva Smith Battle-Bey, the president of Vermont Slauson Economic Development Corporation. We are located in south Los Angeles, and have been there for about 25 years.

Every year I make a trip back to Washington to save CDBG "again." And I say, "again," because we come every year.

I also chair the National Congress for Community Economic Development in Washington, D.C., that is made up of about 600 or so CDC's across the country and the California Community Economic Development Association here in the State of California. We represent over 200 CDC's.

I want to talk specifically about some of the work we have done over the years, and how that work has involved Community Development Block Grant dollars. Because I think that you have heard a lot about the uses that the City and the County have for CDBG, but I want to put our perspective in very personal terms as it relates to people who reside in our neighborhood and people who do business in our neighborhood.

We have built five supermarket-based centers of various sizes in south Los Angeles, all of them coming after the 1965 riots. Our first property at Vermont and Slauson was the first shopping center that was built in 1981 after the 1965 Watts riots. So it took al-

most 20 years before there was a main commercial development in South Los Angeles. And that was done because of CDBG dollars.

There was a tremendous gap in our funding request. Working with a private developer, we ended up needing CDBG dollars. And those dollars came through an Urban Development Action Grant (UDAG) funds as well as through general CDBG funds.

We built that center in 1981 when interest rates were 22 percent. That was the regular interest rate for borrowing. Thank goodness there was some CRA legislation that passed in 1977 and we were able to borrow $2.5 million from a local bank at 10 percent. Okay. That was still expensive money. Now people talk about interest rates of about 7 percent, 8 percent. We were talking about 22 percent money when we built that shopping center. We could not have done it had it not been for CDBG dollars.

That shopping center brought major businesses to our neighborhood and provided over 500 jobs. We also put in a number of small businesses; like our McDonald's which was African-American owned. We have a Post Office there. Some of these amenities that typically weren't in shopping centers in our neighborhood, we were able to bring to that location because we had block grant dollars.

We are tremendously under-retailed in south Los Angeles. There is not one major project in the 25 years I have been involved in economic development that has not involved CDBG dollars. The private sector comes because we can leverage block grant money, and we do so at three to one, four to one, five to one ratio. So it is well worth saving the Block programs.

One last comment. It is not particularly related to economic development, but it is related to the Section 202 Housing program. That program is supposed to have a very significant cut as well. As the baby boomer population continues to age, many of whom are sitting across this panel today, there will be an increased demand on senior housing. So if we do not continue to build senior housing, we are going to have tremendous problems with the baby boomer population and finding adequate housing.

Thank you.

[The prepared statement of Ms. Battle-Bey can be found on page 111 of the appendix.]

Chairman NEY. Thank you very much.

Ms. Shockley?

STATEMENT OF BRENDA SHOCKLEY, PRESIDENT, COMMUNITY BUILD, INC.

Ms. SHOCKLEY. Thank you. Thank you, Chairman Ney and Ranking Member Waters for the opportunity to testify on the impact of Community Development Block Grant, CDBG, programs on communities in south Los Angeles.

My top and general comments would certainly echo that of all my colleagues from the community development advocacy organizations as well as from local government.

I am here today to put a face and a voice on the type of organizations, programs, and communities that have significantly benefitted from both direct and indirect CDBG funding. Community Build's initial funding in 1993 was a $3 million CDBG emergency assistance grant in the aftermath of the civil unrest. That funding was

matched by $1.5 million in State funding and was used to provide employment training to youth and young adults who had actually been disenfrancished and were actually a part of the conditions that led to the civil unrest of 1992.

With that funding, not only did we provide employment training services to youth and young adults, we partially financed the development of 24,000 square feet of commercial development on a site that had been destroyed during the unrest. That development has spurred further development in that are and revitalized the surrounding community.

Direct CDBG funding was received by Community Build again, and in that opportunity we were able to acquire, renovate, and expand to a 9,000 square foot youth center that I must tell you is located in the 35th Congressional District and it has served over 12,000 youth and young adults since 1994, and annually serves a minimum of 1,200 youth and their families.

Community Build has also received CDBG funding indirectly through the budget of the City of Los Angeles. Community Build is a one-stop environment for youth and their families. As a result, we access CDBG funds each and every day, whether it is a referral to a homeless shelter, housing rehabilitation, home ownership assistance, nuisance abatement, or the Targeted Neighborhood Initiative. By way of example, Community Build provides safe passage to the youth in our gang prevention middle school program, L.A. Bridges. Through L.A. Bridges, too, which is funded by CDBG through the CDD Department of the City.

We are slated to provide gang prevention and intervention in an expanded geographic area using CDBG funding.

We partner with Jennesse Center, a domestic violence prevention organization that is funded by CDBG.

Our youth participating programs at the Youth Technology Training Program, that is also funded by CDBG.

Community Build refers students and their families to the Rita Walters Learning complex that Mr. Graves mentioned on Manchester and Vermont, and to the youth and family centers, family development networks in our community. All of these programs are funded by CDBG.

But as Ms. Smith Battle-Bey said, one of the most critical aspects is the 108 loan fund, which is glue for some projects and critical leverage for others. The flexibility of the funding allows organizations like Community Build to access conventional bank financing by blending rates to make debt service manageable.

The Brownfields program is also very, very important because in a community such as ours that has experienced long term disinvestments there are many potential development sites in need of toxic remediation.

Community development and revitalization requires as many tools as possible. CDBG funding is one of the most effective tools for turning around neighborhoods and turning around lives. For organizations such as Community Build, decreasing these resources and eliminating important programs such as Brownfields would not only be crippling, but in many cases devastating.

Thank you for the opportunity to offer testimony, and I urge you to restore the CDBG program and funding.

If time permits, I just have two brief observations and comments regarding issues that have been raised during the course of this hearing.

The first has to do with the discussion with the representative from HUD, whom I wish, too, was still here, regarding the evaluation of the program. And I would just submit to the subcommittee that the nature, the very unique nature of CDBG resources is that it is catalytic funding and it doesn't necessarily lend itself to a one size fits all evaluation tool. That really the idea of looking at how the impact and the outcomes relate, it may be more a function of the tool than the reality. Because we can all tell you how much a small amount of CDBG money will be able to make a big project happen. So I raise questions with the tool and would hope that the committee would as well.

Finally, on this issue of the formula and this language regarding the neediest of the needy. And what I think some are missing is that one of the very critical and important aspects of CDBG is to help families and neighborhoods from slipping into the ranks of the neediest of the needy as well as serving the neediest of the needy. And that is a critical aspect that often, to sort of paraphrase, allows us by investing CDBG dollars you're offering a hand before someone needs a handout.

Thank you.

[The prepared statement of Ms. Shockley can be found on page 109 of the appendix.]

Chairman NEY. Thank you.

And the last witness. Before we do, without objection, I have a letter from Herb J. Wesson, Jr., council member from the 10th District, signed also by Jan Perry and Bernard Parks. Without objection, it will be part of the record.

Chairman NEY. Thank you.

STATEMENT OF MITCHELL NETBURN, EXECUTIVE DIRECTOR, LOS ANGELES HOMELESS SERVICES AUTHORITY

Mr. NETBURN. Thank you. Good morning, Mr. Chairman and Ranking Member Waters. My name is Mitchell Netburn and I am the Executive Director of the Los Angeles Homeless Services Authority known as LAHSA.

I am honored that you have invited LAHSA to testify on the value of the Community Development Block Grant program as a vital tool to help end homelessness. I would also like to thank you for holding this hearing in Los Angeles and for your ongoing leadership in support of homeless programs.

LAHSA is a joint powers authority of the City and County of Los Angeles. Founded in 1993, LAHSA is governed by a 10 member commission appointed by the City and County of Los Angeles. We have been the lead coordinator for the second largest continuum of care services in the country since the inception of HUD's continuum of care funding. This has enabled LAHSA to vigorously pursue a regional approach to addressing homelessness. This is critical to successfully addressing homelessness, especially given the geography covered by our continuum: 4,000 square miles and extreme differences in infrastructure and needs across the County.

Moreover, Los Angeles County encompasses 88 jurisdictions, including 34 entitlement cities.

Based on recent statistics, the City of Los Angeles has now been titled the homeless capital of the United States. And according to Philip Mangano, Executive Director of the U.S. Interagency Council on Homelessness, one in nine people who are homeless in America resides in Los Angeles County. A truly astounding statistic.

Mr. Mangano's statistic was based on the Greater Los Angeles Homeless Count conducted in January of 2005 by LAHSA. This involved a point in time enumeration and survey. The findings estimated that in the course of a year, close to a quarter of a million people, 250,000 men, women, and children experience homelessness, and on any given night there are approximately 88,000 homeless people throughout the City and County of Los Angeles. And tragically, the vast majority—88 percent—are living on the streets or other places not meant for human habitation.

The Community Development Block Grant provides critical funding to address acute problems of communities such as poverty and homelessness. Because of its flexibility, LAHSA utilizes CDBG funds for a wide range of homeless services and housing, including overnight emergency shelters, a respite center for families and model programs which target homeless people living on the streets and providing them with shelter.

These programs enable homeless people to live as independently as possible and become productive members of society. Permanent housing with services is the key to ending homelessness, and CDBG funds are critical to developing housing. For example, just last week the Bring Los Angeles Home Blue Ribbon Panel held a press conference to launch a 10-year campaign to end homelessness in Los Angeles County, which is in keeping with President Bush's initiative to end chronic homelessness.

A key strategy of the Bring LA Home plan is to create 50,000 units of affordable housing targeted to people who are homeless. Community Development Block Grant funding is proposed to comprise 20 percent of the money necessary to achieve the 50,000 unit goal.

Contributing to LA County's homeless problem is the County's affordable housing crisis. For example, within the City of Los Angeles there is a 3 percent rental housing vacancy rate based on recent reports. Not only does this mean a tighter market for low income renters, but those fortunate enough to have a Section 8 voucher are finding it harder and harder to find landlords willing to rent to them. To address this situation, in November of 2005, Mayor Antonio Villaraigosa announced a commitment to add $50 million, including CDBG funds, to the City's housing trust fund for permanent supportive housing for Los Angeles' neediest residents.

The CDBG funding that LAHSA receives on an annual basis has been an invaluable resource for the agency and its service providers who are working in the trenches to end homelessness. Currently LAHSA receives about 19 percent of its overall budget from CDBG funding. Therefore, a proposed reduction of more than 20 percent to the CDBG program would be devastating to Los Angeles.

To cite just one example, CDBG-funded programs provided 203,188 bed nights for people who are homeless in the Los Angeles

area in the last program year. Assuming a cut of even just 20 percent, that would be reduced by over 30,000 bed nights. These reductions would severely cripple efforts to address homelessness, especially in Skid Row, South Central, and Hollywood.

CDBG funding provides a major foundation for homeless service providers as well as a major resource for Los Angeles as it seeks to implement strategies to end homelessness. The City and County of Los Angeles have made significant commitments of resources to end homelessness and collectively are moving in the same direction. Any overall reduction in CDBG funding or changes to the allocation formula which will reduce Los Angeles' share of CDBG fund will force people back on the streets and significantly impact our ability to end homelessness.

On behalf of the homeless community in Los Angeles, I thank you for this opportunity to provide testimony. We unequivocally support continuing the current level of CDBG so that we will have the critical resources and Federal leadership necessary to reach our mutual goal of ending homelessness in the richest Nation in the world.

Thank you.

[The prepared statement of Mr. Netburn can be found on page 97 of the appendix.]

Chairman NEY. I want to thank the panel.

I have just a couple of questions and a statement and then we will go on to our ranking member who will have some questions, I am sure, and the final word since we are in her home area. But if she was in D.C., she would probably still have the final word, and I mean that flatteringly.

I wanted to go back, Mr. Graves, because I think you hit on—and I am sorry to have cut you off. It was just due to time. I think you also touched on something that sparked a thought when you talked about the helmets and you talked about different ways CDBG has been used. And so I am not sure that HUD has taken items like this into account in their calculations or the Office of Management and Budget has taken these items into account.

Again, if you look at an ambulance that is purchased for a fire department, for example, where I am from, or a nearby area Monroe County, Woodsville, Ohio. If you get into a car, the quickest you can get to a hospital is technically a 30-mile trip, which is going to be 48 minutes speeding, you know, between there and the hospital, for example. So you might as well say an hour to get somebody there. So if a community like that does not use an ambulance, CDBG monies, then there may not even be medical care.

So my whole point to that is that may not be calculated by the bureaucracy as a benefit job wise, but it is a quality of life and necessity.

Mr. GRAVES. Yes.

Chairman NEY. So I think by your example, just for the example the helmets and the seats that were provided, is a good local flexibility that does help a community or it helps to save somebody's life or going to the emergency room or costing more in medical care. I think there are a lot of ways that I am not sure that that's calculated in. I don't know.

Were you ever requested by the Office of Management and Budget or HUD to provide these types of items to them as part of the wholeness of CDBG?

Mr. GRAVES. In formal communications with HUD, they do ask for success stories and examples. I am not sure what they do with them. I mean, in terms of, I do not know how they're sent up the line. But we try to keep HUD apprised, the local office here, of what we are doing with the funds.

Chairman NEY. Yes.

Mr. GRAVES. And, frankly, the local office is very cooperative in terms of understanding what we are doing, interpreting the regulations really in a way that allows the City to fulfill its priorities.

But the answer to your basic question is as far as the national level goes we provide that information often to our Congressional delegation, to our interest groups, but I do not know how they are used.

Chairman NEY. Mr. Jackson, what was the .81 percent you were talking about? You had to be at a certain level of 1. something, but it was .81 percent?

Mr. JACKSON. One of the indicators if you run an effective program is the draw down rate, that you have spent it over a period of time. Usually the cut-off period is April 30th of the year. And the requirement is that you cannot have more than 1.5 of your entitlement unspent. And we have spent way below that amount. Basically we are spending our dollars is what it comes down to. And we have exceeded that requirement of HUD.

Chairman NEY. Okay. The question on providing the monies for, I think maybe it was Mr. Jenkins, the monies provided for money to be able to get into housing, CDBG is used for that to be able to get housing for people. Does it provide for down payments or—somebody had mentioned about providing money for people, the high cost of housing here and try to provide some CDBG funds to help people. I am assuming that is helping with down payments or—

Mr. JACKSON. Well, also on the subsidy of the development, bringing it down so it is affordable and they use other resources, lending resources for that purpose. But it is really to buy down the land costs maybe the construction site.

Chairman NEY. Yes.

Mr. JACKSON. But, again, it is only 11 percent of the L.A. County residents can afford housing now. To purchase a home.

Chairman NEY. Is there any shared appreciation where somebody gets some benefits and then the money is put back if they sell house, they put some money back in?

Ms. SHOCKLEY. CRA does.

Chairman NEY. And I am referring to, for example, revolving loans in small towns—a company gets the revolving loan and then they use some of it as sort of a grant but they put it back into another revolving loan fund so somebody else coming down the road it creates a job. I just wondered if there was share appreciation where you are helping people get into the house or housing and then they sell at some point in time if the price goes up, and then they go back into a program? A shared appreciation. You do?

Mr. JENKINS. Yes. And there have been situations where because of the subsidy that goes into, let us say, a home ownership program once the house does sell, then the money or the appreciation is shared back with the agency. And that is being used to help the other homeowners as the new program continues on.

Chairman NEY. Yes. Ms. Shockley, did you have something that you wanted to say?

Ms. SHOCKLEY. Well, Mr. Jenkins answered it. The CRA, the Community Redevelopment Agency, has—and I believe the Los Angeles Housing Department also has programs that allow for the revolving loan as well as a shared appreciation. And you have to hold the property a certain amount of time and if you sell after a certain amount of time, the appreciation is one thing. If you get in and you are trying to flip it and you sell it sooner, it is more.

Chairman NEY. Yes. I just think the issue of housing has been touched on. And I think housing is just, in a lot of ways around the country, at a crisis point. And in particular, for example out in the cities. Now I have been in Congress and I have served with colleagues, but being on the Housing Subcommittee and being with our ranking member who is from here, you know, I found out more and more. You can still acquire a place, for example, in areas where I am from, you can still acquire a 1956 home. 1956 was built with maybe an acre of ground for $62,000. I did not get to the 5,000 square foot homes yet where it is $320,000 for them.

Now one of the problems we have, on the other hand however, is we had such a downturn of the loss of our coal mines, our steel mills our glass houses, you know, all the things that have happened. So for people even though, thank goodness it is at that price and not everything's cheap, but it is decent price, but because of the loss of the jobs people could not afford it or they lost their jobs and then they lost their credit, and now they have bad credit.

The other problem we have, we have some space but then again, some people do not have water and sewer. And you have water and sewer out here, but you do not have the space.

So I just think that it is dramatic. I mean, the prices and the wages are so much higher out here than they would be back in rural parts. I mean, I think it's a huge, huge problem that the Congress has to continue to come to terms on.

We went down to New Orleans and the question was posed down there. In fact, there was a restaurant owner who said he had, I think, 157 jobs open but he could not fill them, because there was no place for people to live. And so I think when you are looking at poverty and jobs and, you know the whole nine yards, it is so difficult.

And actually some things were pointed out to me today by a guest in our audience, I will give her credit for it. We were talking about, you know, people say well why would people go to a high priced store or a 24 hour store and buy things? Well, because they do not have a house, they do not have a microwave. And so they go there to get the prepared meals when it would be cheaper if they had a house with a kitchen area. I mean there is just a whole—I could just go on and on. But I just think that the CDBG money has to be critical for that and for the housing.

And so I am just going to wrap up my part of this just trying to say that it is important to understand. Being out here today, I want to thank again Congresswoman Maxine Waters for speaking up, speaking out on these issues, for inviting us here. In my opinion being here in Los Angeles and listening to the testimony and being able to go back to the U.S. House helps my area, helps the entire country. And what we are hearing from the rural areas from the hearings, although different circumstances, different needs, dovetails the critical nature of the timing.

I am also going to give a pre-warning. This is not just so easy that this money is going to go back. Because last time the money went back, but it was still was a 10 percent cut. So this time we are having a 25 percent cut and we sit there and say oh wow, you know instead of 25 percent saying we're going to be cut five. Well you take the 5 and the 10, no, that is 15.

And we are doing a lot of other things, too. I wanted to mention, too, with Congresswoman Waters, Chairman Oxley, and Ranking Member Frank, we did a GSC bill for affordable housing, and I hope the Senate moves on it. We did CDBG budget resolution. So we are trying to do some of these things.

But I want to warn you, you know, speaking to the Senate if we can get this restored in the House, it is going to be critical in this whole process to get these funds. And in times where if the communities are healthy, let us not rip them down if they are healthy. But a lot of communities are not healthy and they need help. And this is the contrary time to go against the job creation and the quality of life elements, which I think is obviously CDBG. This is like the worst time I think philosophically that the Administration could do this type of thing.

And there are a lot of ways, and I know we have a budget out of balance, we could all talk about 100 ways to do it. But what I will tell you is, and I have looked at this, you know, if we just do not plan a mission right now to Mars, we can save $32 billion. You know, I saw things throughout the budget where we are giving another $200 million to some program, frankly, I have never heard of, and we still cannot find anything out about it.

So going in to just specifically attack CDBG, I think, is a contrary way to go. But I just do not want to give you the false sense this is so easily restored. We have been down these roads and these battles. But today what you did helps us out.

And I want to again thank our ranking member for something that is important, I think, to everybody in the country to try to help them. So thank you for your participation.

I will yield to our ranking member.

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

And I would like to thank all of the panelists who came today to share with us their concerns and to help us to be able to have the information by which to defend CDBG and try to avoid these cuts.

I do have a few questions I would like to ask. And a few other concerns that I would like to share with you.

Well, first of all, for all of our participants, know that I and others believe very strongly in CDBG and we are going to be fighting for all of the money that we can get for CDBG. I am very concerned

that the 20 percent or so cut that the Administration is advancing is going to pit economic development against community programs. I really do not want to see that happen.

And I am also concerned, and I have always believed that to the degree that we could get Section 108 that could relieve CDBG somewhat so that the Section 108 for economic development would help to do some of what CDBG monies may have been used for, and that way we would have more CDBG monies for some of the social programs and programs that we have not even mentioned here today.

First, let me say to all of those who are in the audience today who have programs that you would love to tell us about, we are going to spend some time learning more about many of the programs that have not been mentioned. Someone came to me a little bit earlier to show me a program that had to do with helping the blind, the adult blind in the Valley. And they reminded us that there are many folks who do not necessarily know Braille and they just sit all day long. And so we are aware that there are many programs that are being assisted that we really do need to have even more money for, and we are going to fight for them. And we thank you all for being here today.

For the City of Los Angeles, the challenges are many. I think you spoke about the Ted Watkins Park and the fact that people from some of the programs, the drug rehab programs were being dropped during the wee hours of the morning into Ted Watkins Park. Somebody spoke about that issue. And that is true because at a Town Hall Meeting I was just besieged with folks who said, what are you going to do about it. You know, it could have been easy for me to say well, it is not my problem, I mean you know I go to the City. But we just do not operate our office that way.

So we got up in the wee hours of the morning and we went to the park. And sure enough, there they were. And then we tracked down the buses that dropped them off. And then we went to the program of the people who were dropping folks off in the park to find out what was going on. Well, the fact of the matter is we need housing for people who may be in rehab programs, but those programs do not provide day care for them during the day. They do not know what to do with them, so they drop them off in the park and they have their little blankets there. They sleep in the park, and then they may go back to the program for a few hours a day to do what they do.

Now, let me just say to our representative here from the Homeless Authority. I listened to your testimony about permanent housing. But I want to ask you what have we come up with to deal with the homeless who do not want permanent housing, cannot keep up permanent housing, and will never be able to work another day in their lives. They have mental problems and on and on and on? Permanent housing will not solve their problems. What do we have and who is advancing the idea that we need communities that are developed for people who need a bedroom, toilet facilities, and communal meals to be taken care of in a humane way? We do not need a two bedroom house or not the kind of permanent facility that we always think about. This other kind of solution could be a permanent facility, but it seems as if we are not developing models for

the people that we really find on Skid Row who really are not going to be able to manage the permanent home that we always talk about. Who is dealing with that issue. What are you coming up with to solve this problem in the homeless community?

Mr. NETBURN. Yes. You know, to some degree my agency is working certainly with the City and the County, as well as HUD. And while we do focus on permanent housing, we do try to create a range of housing options because, as you pointed out, homeless people are different and have different abilities. So while permanent supportive housing may always be the end goal, many people may not be ready for that for periods of time.

So one of the programs that we started in Los Angeles a few years ago, originally spearheaded by Councilwoman Perry, was converting our winter shelter program, which only operated a few months of the year, by converting many of those beds to year round beds. It is a very minimal program, People are there just at night, but they do get a meal, clean showering, etc. And for many of the people in the program it has become, to some degree, de facto permanent housing.

We try to move as many of those people as we can into more stable housing. It is really the lowest level of housing that we provide. But certainly in the few years that it has been operating, that is where, right now, they are comfortable staying. They need those ongoing supports, meals provided for them in a communal setting.

Sometimes you will see after 6 months they will move on, sometimes a few years. There are certainly some people who have been there since those programs started. And that is quite a large number. Currently we are funding about 820 of those beds in the City of Los Angeles.

Ms. WATERS. Does anyone have a Rolls-Royce style program that will deal with the various needs of the homeless from the single person with mental disabilities to the person who, with a little bit more educational opportunities, could be trained for a job, to the family that needs a two bedroom house? Where is the Rolls-Royce idea to deal with the various needs of homeless?

Mr. NETBURN. Right.

Ms. WATERS. Does anybody have that?

Mr. NETBURN. There are certainly, I do not know if I would want to call them Rolls-Royces, but certainly there are some model programs throughout both the City and the County. They tend to be separate for families and for singles. There is certainly a movement toward integrating homeless families along with other populations so you don't create sort of mini ghettos of buildings where it is only homeless people. But certainly we have some.

And talking about the population you referred to earlier, in a relatively short period of time, there is going to be a model facility opening in Santa Monica. It's right there on Cloverfield. It is for people who you were talking about who really have failed in all the other programs. It is a model that the Federal Government funds, and it's called A Safe Haven. And the idea is that people can come and go at different hours. There are not the regular rules that have to be followed, and a tremendous amount of services are provided on site.

Ms. WATERS. So they have the health services, both mental health services and other kinds of services, associated with the program. And these people are engaged in some way during the day?

Mr. NETBURN. Exactly. Because particularly for that population, and given the transportation issues in Los Angeles, it is very hard for somebody, you know, especially without a car or especially for a family, if you have two or three kids with you, to make an appointment across town to be there at 1:00 and then to get to another one by 3:00, and you show up a little bit late, and either your appointment is canceled or it is seen as a negative that you got there.

Ms. WATERS. Yes, but see the Rolls-Royce program that I am alluding to would take into consideration those people who are job ready, almost job ready who have appointment to keep and we could provide the transportation for them.

Mr. NETBURN. Right.

Ms. WATERS. We could provide the child care for them.

Mr. NETBURN. Right.

Ms. WATERS. And let me just say this and then I will be saying this to the Mayor and others; while we are moving toward a time when it appears that there is going to be a focus on poverty and homelessness and the Mayor is making this tremendous effort with his housing trust fund and the County is doing that, and the Mayor is now designed by the Conference of Mayors to lead the Nation in leading with poverty issues, we need to develop something for the Congress of the United States to fight for and to be challenged for along with CDBG and these other programs. We need a comprehensive approach to dealing with poverty. And the centerpiece of that is homelessness.

And so I think what I am asking you for is temporary overnight facilities are needed, but we have to get out of that.

Mr. NETBURN. Right.

Ms. WATERS. We have to get down to what we are going to fight for to get rid of homelessness in America, and particularly in Los Angeles with the concentration that we have in our City area. So I will be asking my staff to work and to get to know all of the programs a lot better. We will be asking for those who want to work on the Rolls-Royce idea, the vision, you know, for America to deal with homelessness and poverty.

So I thank you for being here today.

Mr. NETBURN. Right.

Ms. WATERS. And let me just raise a few other questions and I will be ready to close.

For the City of Los Angeles and CRA you mentioned, for example, Mr. Graves, that with this problem out at the Ted Watkins Park where the people were being left, that Grant AME helped out.

Mr. GRAVES. That was Supervisor Burke.

Ms. WATERS. Oh, Supervisor Burke.

Mr. GRAVES. Yes.

Ms. WATERS. Okay. Now Grant is involved with some extensive development in that area where they bought up, acquired land of the old Social Security building and those houses that have been boarded up on the opposite side of Grant on Central for some time, etc. But I do not see them mentioned in your Section 108 program

for the participation in the $50 million that I thought we had targeted to do something in that overall area. Is there some reason why they are not mentioned?

Mr. GRAVES. Congresswoman Waters, they have not been discussing 108 funding with us. I believe they are working with CRA on a broad project. And what typically happens in things like that, as they begin to reach an agreement with CRA, if there are extra financing needs, they bring us into the package. We have not been working with Grant AME.

Ms. WATERS. Mr. Jenkins, this is not your area. You said you were a little west of the area that I am talking about?

Mr. JENKINS. That is correct.

Ms. WATERS. I see.

Mr. JENKINS. I do not have the specifics about the Watts project.

Ms. WATERS. Okay. I would like my staff to get together with CRA and with the Community Development Department to talk about some of these projects and to try and understand from the point that CRA gets involved with some of these projects, how it works with the City for a Section 108 or other CDBG or other funding so that we can not only understand how you cooperate and how you work together, but how you set your priorities. And I want to know more about the development projects. Ms. Battle-Bey talked about some projects that I am very much aware of. But as I look in the south, so-called central L.A. area, I want to know more about Broadway Manchester, Vermont Manchester, and Grant AME projects. I want to understand exactly what kind of resources are being dedicated to these projects and what role everybody is playing in them.

Yes, Ms. Battle-Bey?

Ms. BATTLE-BEY. Congresswoman, the Grant AME project came before CRA prior to October of 2005.

Ms. WATERS. Okay.

Ms. BATTLE-BEY. So there are dollars from CRA involved in their project, but I understand that they are not yet fully developed and over to the CDC side. So that may be something that Brenda can look into as well. Because you have to bring those projects back up. You have to keep going back.

Ms. SHOCKLEY. And the Grant AME project has not come to the CRA since I have been on that Board.

Ms. WATERS. It has not?

Ms. SHOCKLEY. Our Board. But I will call it out.

Ms. WATERS. Okay. That would be good.

Mr. Montiel, I cannot let you go because without saying something about public housing. We are all very concerned about public housing.

Mr. MONTIEL. Yes, ma'am.

Ms. WATERS. And I know you have some particular concerns that you would like to see targeted revitalization of some of the areas that include east L.A. and south central L.A. But while you are looking at that issue and working on getting some feedback on that, I want to know about what funds you are using to deal with drug elimination which HUD wiped out of the budget? I understand, and I just talked with the Attorney General who was before the House Judiciary Committee about the recent efforts at the Jor-

dan Downs Housing Project. For example, where evidently there was some cooperation between the Housing Authority, the City of L.A., and the Attorney General's office to come into Jordan. I think some surveillance cameras are being installed and you are doing some other things.

You are my friend, I am not going to tell you the same way I told Mr. Gonzalez. Do not ever come to my District and do that anymore without me understanding, at least having an idea of what you are doing. We had just been there with you where we did a job fair and we held a Black History Month celebration trying to make sure that we include public housing in the same kind of cultural activities that go on in other parts of the City. You were very cooperative. It was very successful. As a matter of fact, I had dinner with four participants who got jobs and the company that supplied them with the jobs.

Mr. MONTIEL. Wonderful.

Ms. WATERS. We had dinner the night before last, not only to encourage them to continue to do well, but to serve as role models for others who we will be trying to connect with jobs.

So I want to know when you all come up with the ideas about crime prevention on the one hand; we think we have some ideas. We are working with you, but we are surprised by some of the other ideas. How do we create the kind of communication that will help us to work together a little bit better so that people will not say to me, well, why did you not tell me you all were bringing some more FBI, some more ATF and others out here when you came, and we looked pretty stupid. We said we did not know. Oh, you did not know they were going to put some cameras up out there? Did the Feds do this? No, I did not know.

And my good friend at the Housing Authority did not call me, the Attorney General did not call me. So what should we do?

Mr. MONTIEL. Ranking Member Waters, you are absolutely correct in that regard. But let me explain from the perspective of the cameras at Jordan Downs, the lead agency is LAPD. And initially the cameras were always slatted to go on the public right-of-way, essentially to provide safe passage for the students to get back and forth between the schools.

What has happened is that LAPD has moved the initiative forward to try and also place some of the 12 cameras within the development. And what we have gotten from LAPD is an agreement working with Chief Bratton and Commander Beck that as they place anything within the right-of-way that is within the community, that they will have to meet the residents and understand the resident concerns and figure out how the cameras could be positioned so as not to violate their privacy, etc. But essentially this program began as a right-of-way program on the public streets.

What has happened also is that, I think, the Mayor's office has been very successful in working with the Department of Justice to try and expand that program. And the Attorney General issued additional money grants to Los Angeles. And this program may be expanded to other areas now on the east side of Los Angeles as well, and perhaps more communities surrounding our public housing communities in the south side.

All this is in flux now, but I can give you a commitment that as we go forward we are now working a lot closer with some of these efforts and we will certainly ensure that your staff is the table understanding what is taking place, etc. But on this initial initiative at Jordan Downs, it is LAPD that is driving that initiative.

Ms. WATERS. Well, I appreciate that, and let me just say that we have sent a very clear message to the Attorney General, and we will do that with the Mayor and with the Police Chief, Mr. Bratton. I do not know what is going on, but I think there may be some constitutional issues here. And I am not pleased that the Attorney General came here to get tough on crime and only brought $1 million dollars with him. If you want to get tough on crime prevention, you have to bring money with you to talk about how to provide some opportunities for our young people.

So I know that this is your jurisdiction, the Housing Authority. You are the top dog. So when they come to you to tell you what they are going to do on your territory, I wish that you would at least let us know so that we could be involved in some dialogue to talk about what we can do on the one hand to involve the residents, as well as talking about crime prevention and the ways that they would like to proceed, or things they would like to do. And also, we must always raise the question about what to do about real prevention rather than so-called just get tough so that we can provide some more opportunities here.

For example, I do not know—I know that HUD eliminated the drug elimination program. I do not know if anything replaced that program. I do not know if programs are really being made available or coordination is being done to help people get GED's. I do not know if we have any job developers who are really trying to connect people with jobs, ready to cooperate with people on the ground. So we are going to have to get back on this. I spent many years working in public housing developments. It seems, you know, since that time, things have gotten a little bit worse. And so we need to talk about what we can do to change the situation.

Mr. MONTIEL. Yes, ma'am.

Ms. WATERS. I know we need more money, and I am always going to fight for that. But you have this great responsibility. Others will come to you and foster their ideas on things that will only make your jobs a lot harder.

Mr. MONTIEL. Yes.

Ms. WATERS. So I want to stay in close communications with you about some of that.

Mr. MONTIEL. Okay. And if I could comment, Congresswoman Waters. That is the issue that we are before this hearing today. We really do not have monies for programmatic aspects other than running the public housing. And we are losing funding in the capital fund, we are losing funding in public housing. We do not get enough money just to run the house, the brick and mortar, much less provide what is really needed in our communities which is jobs, training, family self-sufficiency, day care, transportation. Because quite frankly most families that could get a job and move their life forward, would prefer to live in their house than to live in public housing. And if we are not engendering that, then we are creating legions of people that will require public housing for dec-

ades instead of serving as that stepping stone for moving families onto better lives.

Ms. WATERS. Well, I appreciate that. And I think one of the things we are going to have to do is we are going to have to activate some advocacy in our public housing projects to confront every level of government about their role in dealing with these very real problems. I think these problems are only being dealt with in a way that says put some cameras up to catch somebody or break down some doors to apprehend someone. We have to be about advocating for the resources for the investment in these human beings that can help change some lives.

So I just wanted to have a little bit of a talk with you about that.

Mr. MONTIEL. Okay.

Ms. WATERS. And I hope the message today that goes out from here is one about communication with all levels of government and with each other. And I am going to talk with the Mayor about how do we get the Members of Congress and the members of the Board of Supervisors, the Housing Authority, CRA, and CDC; how do we get together so that we can start to talk about what we are doing and how we are doing it in ways that will strengthen us to become even better fighters for these resources? Right now I think we are a little bit too fragmented. I think that we work in ways that we are dealing with what we think is the most needed program or our favorite program, or the one that showed up at the most meetings, etc. I think we can do better than that. And that is what I would like that message to be to every entity today that we have to communicate.

And for Members of Congress, I have made a commitment to the California delegation that we are going to create this communication, or I am going to have to develop legislation that will mandate certain kinds of cooperation and interaction so that it will give us more input and more direction. Okay.

Now, let me close by saying that I would like to thank my colleague, Congressman Ney, for taking time from his very busy schedule to be here with us in California. This is the second time he has honored me with having a hearing.

As you know, the Republicans are in charge, and they do not have to hold hearings at the request of a Democrat. But fortunately, we have developed a good relationship working on those issues that we can work on together. His interest in housing, CDBG, Section 8, home program, 108, and Loan Guarantee is absolutely extraordinary. He is concerned about the same things that I am concerned about. And his desire to save these programs is quite unusual.

So we hope to be able to use your input and our advocacy to bring back these cuts. This will be very, very detrimental to our area and that has been spoken to very well here today.

So again, even though my chairman has often been defensive and supportive of me when I break the rules, he is the first one to say that I probably break them all the time; whether we are here in Los Angeles or in New Orleans, he does a fabulous job—I want to tell you, he did a fabulous job. And I cannot tell everybody everything that he did publicly because they would begin to question his credentials as a good Republican. But I want to tell you, he was

absolutely extraordinary in New Orleans. And because of his work we have been able to do some things. And we certainly were able to take some of the CDBG money that the Administration thought that we did not need to direct toward New Orleans and give them an opportunity to use these monies to do some rebuilding. We are also concerned about the public housing developments. But, again, I just want to say that I am very appreciative to him for the attention that he has given to all these issues.

And I would break the rules and ask you to give him another round of applause.

Chairman NEY. You know, I want to thank the gentlelady for her kind comments. And she gives me the other perspective and the other side of the aisle, and combined with my 82 year old parents who are lifetime Democrats from Ohio, I get another perspective from them, too.

It has been a pleasure to be here. This is productive. This helps, like I said, the entire country. Helps our people, helps people around this country and it was so important. So thanks again for hosting us.

The hearing record will remain open for 30 days for members to submit additional questions, possibly, to you, and we can get a response.

And also, sitting here today we have Nat Thomas, Jeff Riley, Clinton Jones, and Tom Johnson. And also Michale was here.

Ms. WATERS. And all of our Washington and Los Angeles staff.

Chairman NEY. Yes. I want everyone to stand up from the staff and give them a round of applause. There we go.

And we will submit all their names for the record.

Ms. WATERS. A big round of applause for the staff for having done a very, very good job today.

Chairman NEY. And also one of the staffers, Dana, has his new bride here, so that is how dedicated he is.

Ms. WATERS. Oh, okay.

Chairman NEY. Is that correct? Thank you.

With that, the hearing is concluded. Thank you very much.

Ms. WATERS. Thank you.

Chairman NEY. And thank you again.

The hearing is concluded.

[Whereupon, at 12:51 p.m. the hearing was concluded.]

A P P E N D I X

April 12, 2006

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

Field Hearing on

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

Wednesday, April 12, 2006

I would like to welcome everyone this morning for the Subcommittee on Housing and Community Opportunity's field hearing on the Department of Housing and Urban Development's Community Development Block Grant (CDBG) program.

I would like to thank my Ranking Member, Cong. Maxine Waters, for hosting the Subcommittee in Los Angeles. She played an active role in preparing this hearing and plays an active role in helping her local communities properly maximize the use of their CDBG funds.

The CDBG program, administered by HUD, is the federal government's largest and most widely available source of financial assistance to support state and local government-directed neighborhood revitalization, housing rehabilitation, and economic development activities.

CDBG is generally recognized as the mainstay for targeted community development of cities, counties and rural areas to principally benefit low- and moderate-income persons. The program strikes 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, and provision of social services.

The CDBG program emphasizes HUD's mission of working through partnerships with State and local governments. Due to the flexibility in uses of CDBG funds, the program is used in conjunction with many other HUD programs to assist communities and target specific populations. Notwithstanding the flexibility of the program, rehabilitating and producing housing is the largest single use of funds by Entitlement communities.

Housing activities include rehabilitation of ownership and rental units, assisting new construction, transitional and temporary housing, as well as necessary site improvements and administrative assistance. The second largest use of funds is for public facilities and improvement.

Last month, I held three field hearings in rural Ohio that highlighted some of the important uses of CDBG dollars. Many local mayors and community development officials testified about how CDBG monies have been used for a wide variety of projects, such as providing safe drinking water, sewer repair, and the purchase of fire fighting trucks and equipment.

To highlight one example, in Knox County CDBG funding has allowed for the revitalization of several downtown streets, such as in Mount Vernon. The rehabilitation

of Mount Vernon's streetscape has brought new life to Mount Vernon and residents and visitors alike can enjoy the renovated shops and restaurants.

If not for CDBG funding, access to this renewed downtown and others throughout our local communities would not be possible and residents could never benefit from these vital resources.

President Bush's FY07 budget proposal raises some interesting and serious questions about what role community development should play in helping local and state governments provide safe and affordable housing to its constituents. In addition to recommending a new formula change for CDBG that focuses more on the neediest communities, the Administration recommended a funding level for FY07 that is 27% below last year's enacted levels.

HUD's community development and housing programs build homeownership, support neighborhood revitalization, and increase access to affordable housing. These activities not only help individual communities, but also strengthen our nation's economy as a whole. Last year, well over $1 billion of CDBG funds were used for housing, resulting in homeowners receiving assistance to rehabilitate their homes, families becoming 1st-time homebuyers, and rental housing units being rehabilitated.

In addition to housing, CDBG serves as a valuable tool for infrastructure enhancement, job creation, economic development, and public service projects. Without adequate funding from CDBG, critical improvements such as new storm sewers, road widening, and job development programs would not have taken place.

My goal as Chairman of the Housing Subcommittee is to make certain that the Department of Housing and Urban Development remains focused on housing and community development and that it has the tools necessary to continue to provide safe, decent, economically viable communities for our citizens. With such a significant decrease in CDBG funding levels, I question whether the Department will continue to meet these admirable goals.

Last year, I was very vocal in my opposition to the Bush Administration's ill-fated proposal to move CDBG over to the Department of Commerce. The CDBG program is based on the concept that local communities and states can best determine priority community development needs and then develop strategies and programs to address those needs. This local flexibility is a hallmark of the program. CDBG helps create a web of programs designed to strengthen our communities, and all need adequate funding to be successful.

I hope everyone will join me in supporting full-funding for the CDBG program so we do not jeopardize the ability of countless moderate-income communities to create jobs and affordable housing opportunities for lower income working families.

Thank you. I now recognize my Ranking Member from Los Angeles, Cong. Maxine Waters.

HILDA L. SOLIS
32ND DISTRICT, CALIFORNIA

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Statement of Congresswoman Hilda L. Solis (CA-32)
House Financial Services Subcommittee on Housing and Community Opportunity Los Angeles
Field Hearing: "Community Development Block Grants (CDBG):
The Impact of CDBG on our Communities"
April 12, 2006

As a Member of Congress representing East Los Angeles and parts of the San Gabriel Valley, I thank the House Financial Services Subcommittee on Housing and Community Opportunity for holding a field hearing on the importance of the Community Development Block Grant program to our communities in Los Angeles. The Community Development Block Grant program (CDBG) is one of the most effective Federal domestic programs to revitalize communities in need with proven results. If President Bush's proposed cuts to CDBG are implemented, programs to improve low-income communities in Los Angeles County would be in serious jeopardy.

Los Angeles County is the largest Urban County CDBG program in the country, and serves unincorporated areas and 47 of the 88 cities in Los Angeles County. From July 2004 to June 2005, the federal Department of Housing and Urban Development (HUD) estimates that 1.6 million people in the City of Los Angeles and Los Angeles County benefited from services that were funded through CDBG monies. Programs that serve battered spouses, the disabled, seniors and youth, and programs that raise crime awareness and support fair housing are just a few examples of the positive community development that results from robust CDBG funding.

True to their mandate, CDBG-funded programs overwhelmingly benefit low-income communities. These funds help minority-owned businesses, which received approximately 25% of CDBG-funded loans to businesses in distressed neighborhoods. CDBG-funded projects have created more than 2 million jobs, including 78,000 jobs which were created in 2004 as a result of CDBG funding. CDBG also leverages investment from the private sector, with approximately $3 in private funding for every $1 of CDBG spent.

In my own Congressional district, many programs are funded through CDBG which benefit cities such as Azusa, El Monte, Covina and Duarte. The Greater La Puente Meals on Wheels program provides meals to elderly and disabled individuals in need. In the City of Azusa, the Homework House provides tutoring, enrichment activities, and support to low- and moderate-income households. In the City of South El Monte, CDBG monies are providing for the

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elimination of substandard housing, promotion of property maintenance, and satisfying the city's zoning and building ordinances, and State and County health codes. The City of Rosemead has used this money to provide residential rehabilitation assistance to over 100 elderly and disabled households and to test 50 low income homes for lead paint contamination.

I have heard great concern from the cities I represent about the impact of President Bush's proposed budget cuts. I would like to submit several of these letters for the record. Over the past six years, Los Angeles County has lost nearly $16 million in CDBG funding. The Los Angeles Community Development Commission (CDC) estimates that it will lose $7.7 million in funding 2007 alone, and that all of Los Angeles County would lose approximately $41 million. Sustained budget cuts such as those already experienced by our community have a significant impact on the ability to operate meaningful and effective programs.

The Community Development Block Grant program has spurred improvement and positive change for America's low-income communities over the program's 32 year history. Yet, at the same time that an additional 5 million Americans have slipped into poverty, this effective program which works to improve their lives, has been cut by more than $700 million. Now is the time to strengthen CDBG, not slash its funding. I urge my colleagues to recognize the vital importance of CDBG to low-income communities like those I represent and reject the President's budget cuts to the program.

TESTIMONY BY
YVONNE BRATHWAITE BURKE
MEMBER, LOS ANGELES COUNTY BOARD OF SUPERVISORS

FIELD HEARING OF
THE HOUSE COMMITTEE ON FINANCIAL SERVICES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

LOS ANGELES, CA
WEDNESDAY, APRIL 12, 2006

Good morning, Chairman Ney and Member Waters.

It is my pleasure to welcome you this morning to Los Angeles and Exposition Park, which is located in my Supervisorial District.

My remarks will discuss the importance of the Community Development Block Grant (CDBG) Program to the County of Los Angeles. Also appearing before your Subcommittee today is Carlos Jackson, the Executive Director of the County's Community Development Commission which administers the CDBG Program on behalf of the Los Angeles Urban County. Although you're receiving testimony on several aspects of CDBG, I will be commenting specifically on the CDBG Formula Program.

The CDBG Program plays a key role in improving the quality of life for low- and moderate-income residents of Los Angeles County. I am deeply concerned about the proposed cut for Federal Fiscal Year (FFY) 2007. The proposed 25 percent reduction in funding will be a loss of over $7.7 million dollars to the Los Angeles Urban County Program. As you know, the Program has been reduced annually since FFY 2001. In FFY 2001 our entitlement was $39 million dollars, and with the proposed 25 percent cut for next year, our entitlement would be reduced to $23.1 million. That's a total loss of $16 million in a six-year period. It is vital that Congress maintain formula funding for the CDBG Program at $4.3 billion to improve the quality of life for our residents.

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 its 32 years, the Program has been used constructively to provide housing, community and economic development, and public service projects. Our funds are normally leveraged with funding from other sources to collectively develop affordable housing, revitalize neighborhoods, and support businesses.

For instance, the Los Angeles Eye Institute, which I have been personally involved with, is an estimated $21 million dollar multi-disciplinary health care facility that will be adjacent to Martin Luther King Hospital. The County will be using a combination of $18 million in Section 108 Loan Guarantee and Economic Development Initiative

funds and $3 million in private funding to construct the facility that will provide health services to low- and moderate-income residents.

In addition, CDBG funds are allocated for important "public service" activities. Our 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 Los Angeles County Board of Supervisors values the CDBG Program in that it provides the flexibility for us to prioritize the allocation of funds to address our local needs.

Thank you for conducting this field hearing on the CDBG Program. To restate, the CDBG Program is a very vital program to Los Angeles County. It has been successful and effective in developing programs and providing services in low-income communities. I am confident that through the course of these hearings you'll see how important the CDBG Program is to Los Angeles County.

However, Los Angeles County cannot afford to suffer further drastic cuts without seriously affecting our abilities to service the most in need.

I join all members of the Board of Supervisors in looking forward to continuing working with members of the Subcommittee and the rest of Congress to support the CDBG Program.

CITY OF INGLEWOOD

OFFICE OF THE MAYOR

Telephone: (310) 412-5300 Fax: (310) 330-5733

Roosevelt F. Dorn
Mayor

COMMENTS

Mayor Roosevelt F. Dorn
City of Inglewood, California
before the
U.S. House of Representatives
Subcommittee on Housing and Community Opportunity
April 12, 2006

Mayor Roosevelt F. Dorn:

Good Morning! I would like to begin by thanking the Chairman and all of the distinguished members of this Subcommittee for conducting these hearings today. I want to especially thank Inglewood's Congressional representative, Congresswoman Maxine Waters, for her constant efforts on behalf of the City of Inglewood and the other communities that she so admirably represents.

The City of Inglewood has participated in the Community Development Block Grant (CDBG) program since its inception. Our residents and businesses have benefited greatly from the crucial Federal funding provided through the CDBG program.

The CDBG program has provided more than $25 million in assistance to low-income families, individuals and businesses. Indeed, the CDBG program has been vitally important to the City of Inglewood and to our ability to enhance safety, prosperity and increased livability within our community.

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Inglewood utilizes CDBG funds to educate and protect low-income individuals with regards to housing discrimination. In an effort to ensure fairness and eliminate housing discrimination, over 10,000 low-income individuals have benefited from fair housing counseling. These monies have funded legal assistance to individuals who are victimized by unfair housing practices.

CDBG funds help us in our overall effort to maintain a suitable living environment in our community. Inglewood uses over $1.3 million annually in CDBG funds to build and improve the public infrastructure system in CDBG eligible portions of the city.

These infrastructure improvement projects include: redesigning streets for increased traffic safety around local parks and schools; increasing pedestrian mobility for persons with physical and developmental disabilities through an aggressive program of installing pedestrian wheelchair ramps in over 350 locations throughout Inglewood; and increasing neighborhood safety through improved property maintenance and correction of building violation deficiencies. These efforts have resulted in achievement of an 80% correction rate of over 8,000 residential and commercial property maintenance/code enforcement violations. Additionally, CDBG funds are used to eradicate over 18,000 annual incidences of graffiti. This funding allows our city to enhance our community beautification efforts, which in turn encourages homeownership, community pride and investment in our city.

CDBG funds are used as a powerful community-based crime prevention tool. Our city has leveraged CDBG public service funds to assist several local non-profit organizations assist our police department to combat gang-related crime. This effort resulted in the development of vital gang-intervention programs that divert at-risk youth from becoming involved in gang activity. As a result of our community-based crime prevention efforts, gang activity in the City was reduced by 18% over the past three years. We need CDBG funds to continue our efforts in this regard.

CDBG helped spark an economic development boom in Inglewood. The City of Inglewood suffered from an increasing blighted downtown area after the relocation of major retailers from the City (Sears Department Store, J.C. Penney and Boston Stores). Inglewood leveraged $1.2 million in CDBG Section 108 Loan Funds, with $700,000 in Redevelopment Funding and $500,000 in Department of Commerce Economic Development funds to rebuild the infrastructure in the downtown area, provided over $250,000 in small business loans, and created 10 full-time jobs.

As a result of the economic development and beautification of the City's central business district, major retail and restaurant chains have decided to open stores in our city. These stores include Home Depot, Target, Bed Bath and Beyond, Chili's, Marshall's, Michael's, Ross Dress for Less, Staples Office Supplies, Bally's Total Fitness, Red Lobster and In-N-Out Restaurant. These new developments have resulted in hundreds of additional jobs being created in the

City. We fully anticipate that other prominent national chains will follow now that the city of Inglewood is viewed as an economically viable place to conduct business.

Inglewood, like most cities throughout the nation, depends on CDBG funds to provide services and improvements that are vital to maintaining the vitality of our community. The changes proposed within the President's fiscal year 2007 budget would adversely impact the residents of Inglewood and our businesses. In fact, our budgeted CDBG revenues for the current fiscal year represent a 23% decrease in funding from the previous year. Our overall budgeted revenues from the Department of Housing and Urban Development represent a 27% decrease from last year. The proposed "reform" of the CDBG program would undermine our ability to help low-income families at a time when they need our help most.

I want to take this opportunity to respectfully urge the members of this Committee to take steps to protect a crucial source of funding for communities across the nation. America is a generous nation that is constantly giving to others around the world. Now, I humbly ask that you do what's right and extend that same spirit of generosity to the citizens of America right here at home.

Again, thank you very much for extending me an opportunity to testify before you today.

ERIC GARCETTI
COUNCILMEMBER
PRESIDENT, LOS ANGELES CITY COUNCIL

April 11, 2006

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 President of the Los Angeles City Council and a member of the Council's Housing Community and Economic Development Committee, it is my pleasure to provide testimony as requested on the City's CDBG Program.

Community Development Block Grant

Los Angeles is a large and diverse city with roughly 4 million residents. Angelinos speak over 140 different languages and dialects and hail from all over the country and the world. According to 2000 Census figures, 148,000 families and 294,000 children are living at or below the poverty line. The City is also faced with a growing homelessness crisis. The Los Angeles Homeless Services Authority conducted a Greater Los Angeles Homeless Count in 2005. The Count found that there are an estimated 48,000 homeless individuals in the City of Los Angeles on any given night. Only 14% of these individuals are able to find emergency shelter beds.

CDBG is one of the most important tools the City has to combat poverty, crime, and homelessness. The City has great community and economic development needs that far exceed the Block Grant dollars we have available. The City uses CDBG funding to sustain innovative programs such as the City's Affordable Housing Trust Fund and our Individual Development Account (IDA) demonstration program. Both of these programs leverage additional government and private funds. The City's Affordable Housing Trust Fund leverages an average $4.77 in non-city dollars for every dollar invested by the Trust Fund. The result is net commitment of 3,522 affordable rental units in the City.

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The City has been creative and innovative in its use of CDBG to improve living conditions and communities, provide and preserve affordable housing, and expand economic opportunities and reduce poverty. But the City's work is threatened by lost CDBG dollars, cuts to CDBG, and spending limits.

The Census Bureau estimates that in the 2000 Census the City of Los Angeles' undercount was 76,800 people, mostly minorities. The City estimates that we lose $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.

In addition to lost funds due to Census undercounting, the City of Los Angeles has faced drastic cuts to CDBG. From the 30th Program Year (04/05) to the 31st Program Year (05/06) the Federal Entitlement was reduced by 15%. During this current Program Year (06/07) the Federal Entitlement was reduced a by additional 11%. At the same time applications for CDBG dollars increased. The City received 215 applications for 32nd Program Year funding totaling $254 million. Our Federal Entitlement for the 32nd Program Year was $73.8 million.

These cuts are event deeper when adjusted for inflation. The Los Angeles Community Development Department estimates that when adjusted by the Consumer Price Index the cuts in federal funds have been roughly 44% over the past 12 years. These reductions have a direct impact on the City's ability to reduce poverty.

The City cannot afford to face any deeper cuts in CDBG or any loss in flexibility. The President's FY 2007 budget proposal does not take into account the realities of poverty in metropolitan areas. The costs of basic necessities (health care, housing, etc.) have increased while wages have remained stagnant. The result is increased need for anti-poverty programs. While we reduce support for services as a result of Federal cuts, service providers are telling us that demand for services is dramatically increasing. Not only can we not cut these services further, we need to increase support for these vital safety nets.

Any required tightening of low-income targeting or dedication of funds for ownership programs would have a detrimental impact on our low-income communities. These two initiatives are in direct conflict with each other. While home ownership is an important goal, it is rarely an option for our lowest income residents. The current housing market in Los Angeles simply makes it impossible to provide large enough subsidies to provide home ownership assistance for low-income individuals and families. The City needs flexibility to ensure that these dollars reach the communities that need them the most. The Mayor and City Council have worked together to target dollars for innovative programs. Any loss of flexibility will stifle innovation and result in a loss of services.

The City has faced an additional challenge from spending limits in the *Public Services* category. Following the 1992 civil unrest, the Federal Government lifted spending limits in this category. During the 30th Program Year (04/05) the Federal Government required the City to limit spending in this category to 15%. This spending cap significantly limits the City's ability to fund anti-poverty, anti-crime and anti-

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homelessness programs. For the past four months the Housing Community and Economic Development Committee has heard testimony of the effect of the cuts and public services cap. We have heard testimony of domestic violence shelters closing their doors, homeless shelters cutting beds, after-school programs reducing the number of students served, gang intervention programs limiting service, and health programs, such as AIDS prevention and nutrition programs, cutting services.

The City will be unable to stem the tide of poverty if these trends continue.

Lastly, the Brownfields Economic Redevelopment Initiative and Section 108 Loan Guarantees are two programs that have greatly benefited Los Angeles. The Brownfields Economic Redevelopment Initiative has allowed the City to transform blighted brownfields site in my district into a beneficial park. The Section 108 program has provided support for a number of economic development projects in the City that have revitalized neighborhoods and provided desperately needed jobs. Maintaining the integrity of these two programs as separate programs is essential to their success.

Recommendations

- Oppose any cuts to CDBG and restore CDBG funding, in real dollars, to its prior year 2000 levels.
- Oppose increased income targeting and dedicated funds for ownership .
- Eliminate the spending cap in the *Public Services* category.
- Ensure that the 2010 Census does not undercount low income Los Angeles residents.
- Protect the integrity of the Brownfields Economic Redevelopment Initiative and Section 108 Loan Guarantees.

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 member Molly Rysman at (213) 473 7013.

Sincerely,

Eric Garcetti
President, Los Angeles City Council

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THE IMPACT OF CDBG ON OUR COMMUNITIES

Testimony of Clifford W. Graves
General Manager, Community Development Department
City of Los Angeles

TO

THE HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

APRIL 12, 2006

The City of Los Angeles
Community Development Department

Services
Resources
Opportunities

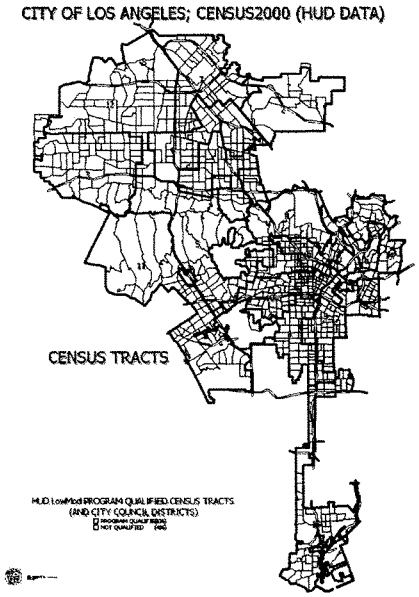
Presentation for April 12 Hearing

Good morning Mr. Chairman and Members of the Subcommittee, and welcome to Los Angeles. I am Clifford Graves, General Manager of the Community Development Department, City of Los Angeles. Speaking for Mayor Antonio Villaraigosa and the entire city, we appreciate your time and interest to conduct the Field Hearing.

Your focus on the Community Development Block Grant (CDBG) is certainly appropriate. Like other communities around the county, Los Angeles is proud of its accomplishments under CDBG over the years; and deeply disturbed by the cutbacks in funding and proposed changes to the program.

Introduction and Summary

As the nation's second largest city, Los Angeles offers unique challenges and opportunities. Geographically the city covers 467 square miles, larger than the *combined* areas of Boston, Minneapolis, Milwaukee, Pittsburgh, San Francisco and St. Louis. The city is home to roughly 4.0 million people of which approximately 1,049,000, or 27 percent, are under 18 years of age. Los Angeles also is unique in its cultural heritage and diversity: more than 140 languages and dialects are spoken in its public schools and roughly 41 percent of its residents are foreign born (compared to the national average of 11 percent).



These facts challenge the City of Los Angeles not only because of its demographics, but also because of the sheer numbers of persons to be served. In 2000, the U.S. Census Bureau estimated that about 148,000 families and 294,000 children in Los Angeles live below the poverty level of $17,463 per year for a family of four.

1) *In Los Angeles, Community Development Block Grant (CDBG) funds are intertwined with a broad range of federal, state, and City resources to address the City's most needy populations.*

- Federal grant funds, including CDBG and Community Services Block Grant monies, are targeted to support projects that serve individuals and families who traditionally lack access to or have been underserved by other programs, such as libraries. The Washington Irving Branch Library in mid-City Los Angeles utilized $3.245 million in CDBG funds to acquire property and build a new 12,269 square foot public library and parking lot to serve the community. Library projects have also been completed in Pacoima, Baldwin Hills, and Cypress Park areas.

- CDBG funds are allocated to twelve Family Development Network (FDN) consortiums of community-based organizations (CBO) and nearly 80 Neighborhood Action Program (NAP) contractors, the latter primarily single agencies. One such cooperative program involved the State of California, Office of Traffic Safety, to provide traffic safety education through community-based organizations to low-income persons in Los Angeles and distributed more than 6,000 child safety seats to targeted families and nearly 13,500 bicycle safety helmets to inner city children
- Agencies certified as Community Based Development Organizations (CBDO), whose activities increase economic opportunities and stimulate or retain businesses and jobs, comprise 48% of HSDS contractors.

2) *As the need for CDBG resources has grown, the City's allocation is declining.*

- The CDBG and Workforce Investment Act (WIA) grant funds account for roughly 95 percent of all City of Los Angeles Community Development Department (CDD) financial resources.
- However, total funding for CBDG has decreased by approximately $23 million, or 31 percent, since 1996 and total funding for WIA has decreased by about $43.4 million, or 43 percent, in the last five years alone.
- Based on proposed federal funding for CDBG for FY06-07, total CDBG funds to the City of Los Angeles will decrease by $8.9 million, or **–10.8 percent**. However, when these reductions are coupled with decreases in the City's purchasing power due to inflation, total federal funds for public services for the city of Los Angeles will decrease a total of $11.9 millions, or roughly **–14.5 percent**.
- Since FY1995-96, when adjusted for inflation, total CDBG funding to the City has decreased by $42.4 million, or almost 44 percent.

3) *The flexibility of the CDBG program is the key to its effectiveness.*

- Over the years the Mayor and City Council have been able to adapt City and CDBG resources to changing needs and conditions, while maintaining focus on targeted neighborhoods and populations.
- The CDBG provides gap financing for private sector projects to ensure that cash flow issues did not undermine the project's completion. The City makes highly selective public investments in catalytic commercial and industrial projects.

4) *One important benefit of CDBG is its ability to leverage other public and private investment in economic development and housing.*

- The City has underwritten eighteen Section 108 loans totaling $132.7 million and the Los Angeles Community Development Bank (LACDB) has provided 241 loans and investments totaling $126.6 million. These programs leveraged more than $1.8 billion in private investment, and created more than 4,400 jobs, of which 879 are held by Empowerment Zone residents and 2,648 held by low- and moderate-income residents.
- Los Angeles used $2.1 million of CDBG funds to acquire an abandoned parcel of land, and leveraged City, State, and private funds to construct a youth soccer field and community center in an economically deprived area of Los Angeles. The project, Antes Columbus Youth Football Club, included various sources of private funding, including

funds from Nike Corporation and U.S. Soccer Federation, to construct a modern soccer field with underground parking and a community center.

The Need in Los Angeles

The demand for services to lower-income households continues to increase in Los Angeles due to changes in demographics and the regional economy. Based on U. S. Census Bureau information:

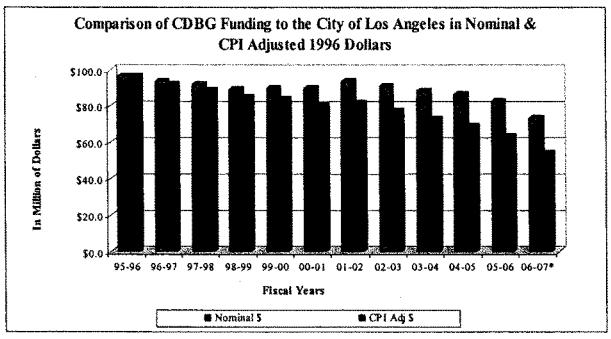
- In 1990 approximately 630,000, or 18 percent, of the residents of Los Angeles lived in low- or moderate-income households.
- By 2000, that number had increased by 29 percent to 814,000, or 22 percent, of all Angelinos.
- 2000, 436 of the city's 842 census tracts qualify for Community Development Block Grant (CDBG) funding.

The ramifications of poverty are further magnified when applied to children and youth:

- Citywide, one in five families are single-parent households. However, nearly one in two families in areas of Los Angeles characterized as low- or moderate-income are single-parent households.
- Citywide births to teenage mothers account for roughly 11 percent of all live births, whereas in low- and moderate-income areas, births to teenage mothers account for about 54 percent of all live births.
- One out of five 16 to 24 year olds in Los Angeles is out of work. This equates to 20 percent, or approximately 100,000 young adults are out of school and jobless.

As Need for CDBG Resources has Grown, the City's Allocation is Declining

There is ample experience and research confirming that sustained, long-term commitment is essential to achieve significant improvements in the quality of life in our cities. Education, public health, environmental quality, and economic growth cannot occur with short-term "fixes." The 32-year old CDBG is an example of such a sustained commitment, but its effectiveness is endangered by the funding reductions in recent years, and proposed again for FY 06-07. When the impact of inflation is added, the picture is even more grim. For example, for the period 1996 to 2006, inflation reduced the City's purchasing power for goods and services by almost 31 percent, or $42.4 million. Based on proposed federal funding for CDBG for FY06-07 (*), total CDBG funds to the City of Los Angeles will decrease by $8.9 million, or –10.8 percent, from FY05-06. However, when this reduction is coupled with decreases in the City's purchasing power due to inflation, total federal funds for



public services for the city of Los Angeles will decreased from a total of $11.9 millions, or roughly 14.5 percent.

CDBG's Flexibility and Adaptability Serves the City Well

One of the key attributes of the CDBG program is that it enables local officials to tailor projects and services in response to unique conditions challenging lower-income families and neighborhoods in their communities. What works in Los Angeles may not work in St. Louis.

In Los Angeles, the City must coordinate the efforts and resources of multiple partners. The CDBG's adaptability to local needs is very important in order to effect economic and neighborhood development.

It may seem counterintuitive, but CDBG's flexibility is a base that the City can use to plan for and adapt projects as needed in order to bring them to fruition. In recent years, the trend in donations and grant funds is towards more specific and limited activities. This increases the likelihood that there will be gaps in programs and project budgets. At the same time, local organizations are encouraged to be more comprehensive in their services. The City supports this model of seamless, "one-stop" access for consumers.

This requires the City and it partner organizations, particularly community-based nonprofits, piece together multiple streams of restricted monies to achieve the needed service or outcome.

For example, CDBG provided the matching contribution to $500,000 in other federal funds for a five-year Individual Development Account (IDA) demonstration "savings" program. Key was being able to allocate these funds over a relatively long-term. The result was that fifteen persons were able to buy a home, 86 were able to start a business, and 42 were able to further their education.

The CDBG provides gap financing for private sector projects to ensure that cash flow issues did not undermine the project's completion. The City makes highly selective public investments in catalytic commercial and industrial projects.

Some examples of innovative programs designed by the City of Los Angeles to address the impact of social and economic deprivation within at-risk communities are:

Family Development Networks. The Family Development Networks (FDN) delivers supportive services to at-risk individuals and families. Using a model of a lead and partnering agencies, each FDN examines client's needs to determine and coordinate the level and delivery of needed services. Family Development Networks case managers link participants to services provided directly or through community-based partners.

- Twelve FDN located throughout the City and serve roughly 10,500 families, or about 7 percent of all low- or moderate-income families in Los Angeles.
- Each family, on average, receives about 4.5 different services, such as, pre-employment support, household budgeting, health, legal, childcare, and counseling.
- An estimated 975 families annually are moved to self-sufficiency, breaking the cycle of generational poverty.

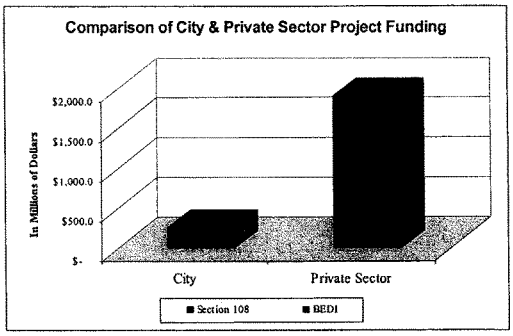
LA Bridges Program. The City of Los Angeles Bridges program seeks to prevent youth from joining gangs, and also to intervene with young people to reverse their choice to be gang members. Both prevention and intervention efforts guide youth toward opportunities and lifestyles conducive to being productive and solid members of society.

Rita D. Walters Learning Complex/Youth Opportunities Unlimited. The Youth Opportunity Unlimited (YOU) was created by the City of Los Angeles to develop a self-sustaining infrastructure of integrated services addressing the needs of youth in a target community, including job training, education, support services, child care and recreation.

- The CDBG funds were used in the design and construction of the 67,300 square foot facility that includes a 48,300 square foot alternative high school/community center and a 19,000 square foot childcare center.
- The program provides high school diploma services, job training, childcare, entrepreneur training through the University of Southern California (USC), and community-based training through the University of California, Los Angeles (UCLA).
- The program provides school to career program, English as a Second Language, special education, independent study and cultural activities. The alternative high school also offers childcare service to teen parents in order to allow them to continue their education.
- Operating funds come from CDBG, LAUSD, State Department of Education, and U.S. Department of Agriculture and other sources.

Economic Development Results

The City of Los Angeles uses Section 108 Loans and Economic Development Initiatives (EDI) and Brownfields Economic Development Initiatives (BEDI) grants to address the city's most challenged neighborhoods. Through December 31, 2005, these programs by the City and the Los Angeles Community Development Bank (LACDB) has produced the following results:



The City has underwritten 18 loans totaling roughly $132.7 million and through LACDB has provided an additional 241 loans and investments totaling $126.6 million. Combined, these programs have leveraged more than $1.8 billion in private investment. More than 4,400 jobs were created of which 879 are held by Empowerment Zone residents and 2,648 held by low-moderate income residents.

Examples include:

Chesterfield Square – mixed-use shopping center development in South Los Angeles leveraged a $2.9 million Section 108 loan and $840,000 for a $29.9 million project that created 400 jobs and brought much-needed goods and services to the community.

Old Bank District – mixed-use project in historic downtown core in 2002 initiated the adaptive reuse of obsolescent buildings that have kicked off a $12 billion construction boom in downtown. Leveraged $5.1 million Section 108 to develop $37 million project that eliminated slum and blight and led to the renaissance of the historic core.

Sheraton Town House – retail associated with low- and moderate-income housing project that leverage $1.4 million Section 108 loan for a $6.1 million project that created 73 jobs in the mid-Wilshire Corridor.

With HUD's approval to reallocate $198 million in Section 108 loan authority to the City from the former Los Angeles Community Development Bank (LACDB), the City is mounting an aggressive campaign to help finance the revitalization of neighborhoods in and around the Federal Empowerment Zone.

The City's LA Business Assistance Program (LABAP) utilizes non-profit development corporations to assist new and growing businesses and target areas with planning, marketing, hiring, site selection and financing. This CDBG-funded program assists 1,500 businesses each year.

Recognizing a growing gap between the workforce needs of LA's changing economy and the skills of the local labor force, the Mayor and Council are increasing CDBG and other resources for workforce development.

Funds Integral to Public Services

Community Development Block Grant funds have long been an integral part of the City of Los Angeles' ability to provide a wide array of services to at-risk populations. The City uses CDBG monies to fund projects that address four core priorities: (1) *Affordable and Workforce Housing*, (2) *Youth Development and Education*, (3) *Job Creation and Economic Development*, and (4) *Public Safety*. The City targets project activities that provide appropriate and needed services to

- individuals who may not be eligible for assistance from other funding sources
- persons that are geographically isolated by lack of transportation
- communities that lack basic amenities in their neighborhoods.

These projects provide complementary or supplementary services to low and moderate-income residents that traditionally have been served poorly by existing programs either because of eligibility constraints or because of conflicting performance measures.

To address these priorities, the City combines various federal, state, and local revenue streams to fund comprehensive programs that provide critical services for low and moderate-income residents. Interweaving these funding sources allows the City to bridge service gaps that might otherwise result from limited local resources and from grant restrictions. Through this blending of resources, the City is able to expand and enhance the delivery of services to its targeted residents. The following summaries illustrate specific examples of core priorities.

Affordable and Workforce Housing. The City's Housing Department partners with the Housing Authority of the City of Los Angeles (HACLA) and with the Los Angeles Homeless Services Agency (LAHSA) to address housing affordability and availability issues. The City also promotes active collaboration around public housing goals and initiatives, through the ROSS program (formerly Economic Development and Supportive Services), its Community Service Centers, and funds from Public Housing Drug Elimination Grants. The City also links with HACLA and LAHSA to manage the Shelter Plus Care and Section 8, Single Room Occupancy housing programs and to provide housing and ancillary services through HOPWA. Funding through the Workforce Investment Act and the Jobs PLUS program provides public housing development residents with employment, job training, and educational services.

Youth Development and Education. A critical new study shows that the significant number Los Angeles teens, ages 16 through 19, lack early work experience. The study, "The Teen Disconnection in Los Angeles", paints a dramatic picture of Los Angeles youth, particularly from South and East Los Angeles, having less exposure to jobs and lack early work experience. Early work experience is considered necessary to gain early development of workplace "soft skills" needed to compete and succeed in the workplace. This disconnection from work compounds the problem of low high school completion rates documented recently by this study and others on Los Angeles area youth and education. According to the report, "Over 25,000 Los Angeles teens are not enrolled in school programs and are not in the workforce."

The City's Community Development Department, Department of Public Works, and Department of Recreation and Parks coordinate efforts and resources to provide work experience, youth development, and educational services to low-income youth and their families. The Youth Opportunity Movement focus on development, employment, and educational services to youth at risk of disengaging from school, to youth who have dropped out of secondary school, and to young adults with basic skills deficiencies.

The Workforce Development and Bridges programs combine funds from the City General Fund, CDBG, Juvenile Justice, WIA and other resources to provide gang prevention and intervention services as well as educational services to at risk youth and gang-involved youth. In addition to critical job development and training services, these services provide fundamental life skills training normally not available to individuals through the workforce system such as, financial literacy, English as a Second Language, and information about financial assistance for post-secondary education.

The City's Workforce Development and One-Stop System links with the CDBG-funded Human Services Delivery System and Family Development division that manages the Family Development Networks (FDN) and the Neighborhood Action Programs (NAP). By coordinating funding of these program services, the City ensures expanded services, including efficient intake, referral and case management support for youth and their families, electronic linkages to City and other government services, and capacity-building for staff of community-based nonprofits. These programs also provide complementary workforce development services, such as, counseling, parenting skills, childcare access, and alternative educational programs.

Job Creation and Economic Development. The City closely links its Workforce Development system with its economic development efforts. Projects focusing on micro enterprises and entrepreneurial training, on Brownfield remediation, and on business and retail development are connected with employment and training programs for targeted residents. Additional coordination with local government agencies (Los Angeles County Department of Public and Social Services, the Los Angeles County Office of Education, and the Los Angeles Unified School District), with the State of California Employment Development Department, with the U.S. Department of Labor, and with both private and nonprofit providers of employment and training programs ensures that economic development and business services generate jobs in both the short term and long term for low and moderate income residents, for at risk youth, and for victims of domestic violence.

Thank you, Mr. Chairman and Members. Two documents are attached to this testimony, requested by Congresswoman Waters:

Presentation for April 12 Hearing

- Letter dated April 4, 2006 to Rep. Waters from Mercedes Marquez, General Manager, City of Los Angeles Housing Department regarding the City's housing programs and CDBG.

- A brief summary of the history and status of the Los Angeles Community Development Bank (LACBD).

UNITED STATES HOUSE OF REPRESENTATIVES
HOUSING AND COMMUNITY OPPORTUNITY
SUBCOMMITTE HEARING
APRIL 12, 2006

GOOD MORNING, MY NAME IS HAROLD HOFMANN, AND I AM PLEASED TO BE HERE REPRESENTING THE COMMUNITY OF LAWNDALE. I AM HERE TO DISCUSS WHAT CDBG FUNDS DO FOR LAWNDALE, HOW THOSE FUNDS ARE USED TO SUPPORT AND ENHANCE OUR CITY, AND WHAT IT WOULD MEAN IF THOSE FUNDS WERE TO BE CUT, OR WORSE, TAKEN AWAY COMPLETELY. I HOPE THAT THIS TESTMONY WILL ALLOW THE SUBCOMMITTEE TO SEE THE GREAT THINGS CDBG DOES FOR THIS COMMUNITY AND ALLOW YOU TO DISCERN WHY IT IS NECESSARY TO STOP CUTS IN CDBG FUNDING.

LAWNDALE IS A COMMUNITY OF APPROXIMATELY 31,000 RESIDENTS THAT IS STRATEGICALLY LOCATED IN WHAT WE AFFECTIONATELY CALL, THE "HEART OF THE SOUTH BAY." AS IS THE CASE WITH MANY OF CALIFORNIA'S CITIES, LAWNDALE'S FINANCIAL RESOURCES ARE SEVERELY LIMITED. THIS IS SHOWN IN THE TWO LARGEST AREAS FOR GENERATING REVENUE: PROPERTY AND SALES TAX. IN 1978, WHEN CALIFORNIA'S PROPOSITION 13 WAS PASSED, LAWNDALE WAS A CITY THAT HAD NO PROPERTY TAX. TODAY, THE CITY RECEIVES A VERY SMALL PERCENTAGE OF WHAT ITS RESIDENTS PAY IN PROPERTY TAXES AND MUCH LESS THAN THE AVERAGE CALIFORNIA CITY'S

PORTION. ADDITIONALLY, WITH ITS SMALL SIZE OF APPROXIMATELY 1.9 SQUARE MILES, LAWNDALE DOES NOT HAVE A GREAT DEAL OF RETAIL DEVELOPMENT AND THEREFORE DOES NOT RECEIVE MUCH SALES TAX. BECAUSE OF THESE FACTORS, THE CITY OF LAWNDALE MUST RELY ON OTHER FUNDING SOURCES, INCLUDING CDBG, TO PAY FOR MANY OF THE PROGRAMS IT OPERATES.

LAWNDALE IS A COMMUNITY THAT HAS BEEN PARTICIPATING IN CDBG SINCE ITS INCEPTION 32 YEARS AGO. THIS FUNDING HAS BENEFITED THE COMMUNITY IN MANY WAYS. HOWEVER, IN RECENT YEARS, DUE TO FUNDING DECREASES, CITY STAFF HAS NOT HAD THE ABILITY TO FUND OR IMPLEMENT ANY NEW PROJECTS, AND HAS HAD TO WORK HARD TO SUSTAIN CURRENT PROJECTS. IN THE PAST, TO DETERMINE WHAT PROGRAMS THE CITY WAS ABLE TO PROVIDE, STAFF GENERALLY RECOMMENDED CONTINUING EXISTING CDBG FUNDED PROGRAMS THAT PROVIDED THE MOST BENEFIT TO QUALIFIED RESIDENTS. WHEN A CDBG PROJECT WAS COMPLETED, OR ADDITIONAL CDBG FUNDS WERE MADE AVAILABLE, STAFF RECOMMENDED THE IMPLEMENTATION OF NEW PROJECTS. THIS WAS ACCOMPLISHED THROUGH A REQUEST FOR PROPOSALS TO IMPLEMENT NEW CDBG FUNDED PROJECTS. THIS HAS NOT HAPPENED IN SOME TIME, AND THE CITY HAS BEEN USING ITS DWINDLING CDBG FUNDS TO SUPPORT THE SAME PROGRAMS YEAR IN AND YEAR OUT.

MOST RECENTLY, FUNDING HAS GONE TO AN ITEM THAT IS CONSIDERED EXTREMELY IMPORTANT, AND HAS BECOME A NECESSITY. THE PREVIOUSLY NOTED STRATEGIC LOCATION OF LAWNDALE IN THE HEART OF THE SOUTH BAY HAS CAUSED, AND WILL CONTINUE TO CAUSE, A SIGNIFICANT NUMBER OF VEHICLES AND LARGE AMOUNTS OF TRAFFIC; WHICH ARE GENERATED BY LAWNDALE'S LARGER SURROUNDING NEIGHBORS. BECAUSE OF THIS, LARGE PORTIONS OF LAWNDALE'S CDBG FUNDS GO TO IMPROVE AND MAINTAIN ITS 22 MILES OF STREETS AND TO MAKE ITS SIDEWALKS A.D.A. COMPLIANT AND MORE ACCESSIBLE TO RESIDENTS AND VISITORS ALIKE. IN RECENT YEARS, CDBG FUNDING HAS ALSO BEEN USED FOR PROCUREMENT AND ADVANCES FOR LAWNDALE'S SENIOR CITIEZEN POPULATION, WITH GOALS OF CREATING NEW SENIOR FACILITIES. THESE FUNDS ARE CURRENTLY USED TO SUPPORT THESE SENIORS WITH A NUTRITION PROGRAM, PROVIDING DAILY MEALS AT REDUCED, AND OFTEN, NO COST. OTHER PROGRAMS CURRENTLY FUNDED THROUGH CDBG INCLUDE RESIDENTIAL REHABILITATION AND GRAFITTI REMOVAL. THESE PROGRAMS ALLOW FOR THE COMMUNITY OF LAWNDALE TO CONTINUE TO APPEAL TO AND ATTRACT FAMILIES, AND MOVE AWAY FROM BLIGHTED CONDITIONS.

AS YOU MAY BE AWARE, THE FEDERAL GOVERNMENT HAS BEEN CUTTING FUNDING TO CDBG OVER THE YEARS, WITH FUNDING FOR CDBG

DECREASING SIGNIFICANTLY OVER THE PAST THREE YEARS. IF FUNDING IS CUT FURTHER FOR LAWNDALE'S CDBG PROGRAMS, ITS RESIDENTS WILL BE AFFECTED IN IMMEASURABLE WAYS. CUTS IN THIS TYPE OF FUNDING WILL HARM THE CITY'S CONTINUED SUCCESS IN THE PROGRAMS IT CURRENTLY PROVIDES. THE CITY WOULD NEED TO SEEK OTHER FUNDING FOR PROGRAMS, BUT WOULD LIKELY BE FORCED TO ELIMINATE MANY OF PROGRAMS THAT PROVIDE SO MUCH FOR OUR RESIDENTS.

I WOULD LIKE TO TAKE THIS OPPORTUNITY TO THANK THE SUBCOMMITTEE FOR ALLOWING ME TO SPEAK TODAY ON BEHALF OF THE COMMUNITY OF LAWNDALE. I URGE YOU TO USE WHAT YOU HAVE HEARD TODAY AND DO ALL YOU CAN TO STOP ANY REDUCTION OR ELIMINATION OF FUNDING FOR CURRENT AND FUTURE CDBG PROGRAMS.

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

April 12, 2006

Good morning, Chairman Ney and Ranking Member Waters:

I am here today to provide testimony on behalf of Los Angeles County in regards to the Community Development Block Grant (CDBG) Program. I appreciate the opportunity to provide testimony about this Program, which is of great significance to our communities. In particular, I appreciate the leadership and support of Congresswoman Waters and Congressman Miller, both of whom have been steadfast in their support of the CDBG program.

Opening Statement

You have asked me to comment on the Administration's proposal which includes deep funding cuts to the CDBG Program, the elimination of the Section 108 Loan Guarantee Program, and the Brownfields Economic Redevelopment Initiative, formula changes and targeting within our communities. While all of these issues are critical to enabling us to administer an effective CDBG Program, I believe the most serious is the proposal to reduce formula funding. As we prepare for the Fiscal Year (FY) 2007 budget, we are again faced with a dramatic decrease. CDBG has long been used as a tool to improve the quality of life of Los Angeles County's low- and moderate-income residents. This proposed decrease in funding comes at a time when the 2000 Census shows that 1,674,599 of the County's women, children, and men are poor, when the average poor family in Los Angeles spends over half of its income on rent, when 266,800 County residents are unemployed and underemployed, and when Los Angeles, with its 90,000 homeless persons, is considered the nation's homeless capital.

Today, we face a proposed cut to the CDBG Program of 25 percent. This is in addition to the 21 percent cut that we have already experienced from FY 2001 to 2006. Our current funding is $30.8 million, down from $39 million in FY 2001. Should the proposed cut be approved, this would result in a cumulative $16 million loss. Overall, the reduction in funding for this six-year period would be a staggering 40.7 percent.

These deep cuts, coupled with the tremendous need in Los Angeles County, have necessitated that we reduce funding and eliminate some programs and services. Further, many of our capital projects are funded on a multi-year basis. Any reduction in funding would create the necessity to reprioritize or de-fund new projects in order to fund our ongoing commitments to multi-year projects. Moreover, in order to ensure program effectiveness and maximize our resources, we utilize three (3) planning approaches when determining project allocations:

- Does the project leverage private funds?
- Is the project using a combination of government resources?
- Is this funding of last resort?

These approaches rely heavily on the CDBG program, as its flexibility has allowed us to address the multitude of needs of the County's most impoverished residents. Listed below are types of projects the County funds utilizing the three (3) planning approaches:

Leveraging of funds: Basettdale Homes Development, a $14,285,636 project, used $250,000 in CDBG dollars, $2,259,850 in local development funds for property acquisition, and the balance of the project was comprised of conventional funding. Currently under construction are 45 homes, 23 of which will be reserved for first-time homebuyers that earn 80% or less of the median income.

Combining resources: Hale Morris Lewis Manor, a $4,661,334 project utilized $365,000 in CDBG funds, $831,037 in local redevelopment funds, and $928,444 in HOME funds. The project provides 41 units of senior housing.

Funding of last resort: Many of our public service and infrastructure projects administered within the unincorporated areas and participating cities rely on CDBG as funding of last resort. Public service projects such as after-school programs for youth, senior programs and mentoring/counseling assistance, serve the communities with the highest need, and some of the County's poorest residents, and may not be funded if the program is subjected to further budget cuts.

Currently, for every CDBG dollar expended on housing development, we leverage three (3) dollars in other public/private resources. Therefore, any reduction in CDBG funding would reduce our ability to leverage our scarce resources and develop much needed housing.

Overview

Los Angeles County operates the largest Urban County CDBG Program (Urban County) in the nation and has an allocation of $34.6 million in our current fiscal year. The Urban County Program consists of the unincorporated areas, governed by the County Board of Supervisors, as well as 49 of the 88 cities within Los Angeles County. Forty of our 49 cities have participated in the program for the past 19 years. The Urban County population totals almost 2.2 million, 949,023 of which constitutes the population of the unincorporated areas, with the balance representing the 49 participating cities.

The Urban County Program utilizes the U.S. Department of Housing and Urban Development's (HUD) formula to distribute funding to its participating cities and the five (5) Supervisorial Districts for allocation within the unincorporated area. This formula, which allows for objective and equitable distribution of funding, takes into account

population, overcrowded housing, and poverty. Since 1975, it has been the County's policy to allow cities, and their respective city councils, the flexibility to identify and implement projects in accordance with their priorities, provided CDBG regulations are met.

The Community Development Commission (CDC) is the administrative agency of the County that serves as the CDBG planning, reporting, and compliance entity and implements the CDBG program in the unincorporated areas. In our capacity as administrator, we have met or exceeded both of HUD's requirements relating to performance standards: overall provision of benefit to low- and moderate-income residents, and the timely expenditure of funds. These performance standards have been exceeded in the following manner:

- CDBG Program requirements stipulate that we expend at least 70 percent of the CDBG funds to benefit low- and moderate-income residents. For the past four (4) years, the County, on average, has expended **94 percent** of its funds on these residents. For the year ending June 30, 2005, the County expended **95 percent** of its funds on services for low- and moderate-income residents.

- 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. For the past ten (10) years, Los Angeles County has met or exceeded this drawdown performance requirement. As of April 30, 2005, our drawdown rate was at a historic low of **.81 percent**, well below the 1.5 percent standard.

Impact of Cuts to Los Angeles County

Since FY 2001, formula funding under the CDBG Program has declined from $4.41 billion to $3.71 billion in FY 2006. To restate, for the Los Angeles Urban County, funding has diminished by almost 21 percent, or an $8 million loss, from $39 million in FY 2001 to $30.8 million in FY 2006. The decrease in funding can be seen in fewer dollars being available for vital programs and services the County depends on to assist its low- and moderate-income residents, who make up 4.1 million of Los Angeles County's 9.5 million population.

Fewer dollars limit the County's ongoing activities to assist those communities most in need, severely undercutting long-term plans for public improvements to streets and parks, as well as forcing cutbacks in special economic development activities, designed to assist small businesses, help create or retain jobs and maintain important business centers.

Community programs and services funded through the County's CDBG Program have also experienced significant impacts, with public service dollars being cut back by over 50 percent over the last six (6) years. Due in part to a shift in allowable public service spending from 25 percent back to 15 percent, critical programs for the homeless, elderly, and childcare have all sustained annual budget decreases with some CDBG

funded programs being eliminated altogether. These impacts hurt the County's economically disadvantaged residents the most, because they depend on these CDBG-funded services daily.

Despite the cuts, pressure on the Program is not easing and will be magnified even further by the proposed cut. The Administration is now calling for CDBG funding to again be reduced in FY 2007 by 25 percent, by far the largest one-year cut ever, resulting in a cumulative 40 percent cut to the Los Angeles Urban County Program since 2001. See the attached chart that demonstrates the significant cuts to the County's Program.

Should the 25 percent reduction be realized, this would result in the State of California losing $119.7 million and the 35 entitlement jurisdictions in Los Angeles County losing $41.1 million. Moreover, the Program cuts may have a significant impact on many of the smaller service oriented programs, seeing the potential elimination of programs such as prenatal care, direct business assistance, or housing rehabilitation services for seniors.

We support Congress' effort to respond to the Administration's proposed cuts and fund CDBG formula grants in FY 2007 at a funding level of at least $4.3 billion.

Section 108/Brownfields Economic Redevelopment Initiative (BEDI)

We do not support the Administration's proposal to consolidate a number of programs including the Section 108 Loan Guarantee (Section 108) and BEDI programs. These programs have been useful leveraging tools in facilitating community and economic development activities. We believe that "consolidation" is essentially an elimination of the programs.

The Los Angeles Urban County has funded over $56 million in Section 108 projects for 11 participating cities, which include industrial parks, downtown revitalization, and neighborhood facilities. The BEDI program supports a wide variety of projects, including developments with a strong business attraction, expansion and/or retention component, and new employment opportunities. A reduction in CDBG funding could lead to defaults on existing loans for community and economic development projects that are being repaid using CDBG funds.

In Los Angeles County, we have used the Section 108 and BEDI program to not only facilitate economic development and job creation, but also to eliminate brownfields. Below are two (2) recent examples of how Section 108 and BEDI have worked together:

- City of Santa Fe Springs Golden Springs Development Park - consists of a **$20 million** Section 108 loan as well as a **$1.75 million** BEDI grant and **$2 million** Economic Development Initiative (EDI) grant. These funds converted a contaminated 130-acre oil production and storage site into a commercial warehouse and distribution center, which yielded **679** jobs.

- City of West Hollywood Gateway Retail Project - consists of an **$8 million** Section 108 loan and a **$2 million** BEDI grant. These funds converted an old car wash into a retail center that created **750** jobs.

Currently, there is a proposal by Congressman Gary Miller that would eliminate the requirement that local governments obtain Section 108 loan guarantees as a condition to receiving BEDI grant funding. De-linking BEDI grants from Section 108 loan guarantees is important because some smaller cities have difficulty in securing those guarantees. The de-linking of these two programs would lead to more use of the BEDI program and eventually more cleanup of brownfield sites and greater economic development for our cities.

Targeting of CDBG Funds

In 1987, the County developed a Community Profile, to serve as a guide to target community development activities within the unincorporated areas of the Urban County. Revised after every census, the report provides social, economic, and housing data derived primarily from census figures, to describe those areas of the unincorporated County that qualify for use of CDBG funding. The Community Profile serves as a resource tool to guide the County's community, economic and housing activities, and to prioritize the use of CDBG and other funds within the unincorporated areas.

The document identifies target areas, referred to as "Strategy Areas," which are eligible for CDBG funding based upon the income levels of residents and the physical condition of the neighborhoods. While many areas of Los Angeles County can benefit from public community development efforts, the target areas designated in the document have a majority of low- and moderate-income residents, as defined by CDBG requirements, and a demonstrated pattern of disinvestments and deterioration. The document provides statistical data and brief narrations to describe the character of the Strategy Areas and indicates in general the type of community development activities needed in these neighborhoods.

The Community Profile has identified housing and jobs among the most crucial areas needing to be addressed and requiring intensive investment, as outlined below:

Housing
Los Angeles is faced with a shortage of affordable housing and lack of developable land. Los Angeles has a rental vacancy rate of just three (3) percent and the median cost of a home is now $565,000 while the median family income is just $56,200. Further, the minimum household income needed to purchase a median priced home is approximately $140,000. In December 2005, only 12 percent of Los Angeles County residents could afford the median home price.

CDBG funds have been integral in facilitating the development of **9,600 affordable housing units**, including special needs housing, over the past five (5) years. We have used our scarce CDBG funding to facilitate acquisition and off-site improvement costs,

while other funding, such as local redevelopment funding, has been leveraged to cover the actual development costs. Without CDBG funding, the County would not have been as successful in meeting its critical housing needs.

Homelessness
Sadly, Los Angeles boasts the Country's largest homeless population. There are a large number of homeless persons - 90,000 in Los Angeles County on any given night. On April 6, 2006, Philip Mangano, the Executive Director of the U.S. Interagency Council on Homelessness stated that "one out of nine homeless persons in this country lives in Los Angeles County."

CDBG dollars are used in combination with limited McKinney homeless funds ($1.3 million) and funds from local sources. On April 4, 2006, the Board of Supervisors adopted the Los Angeles County Homeless Prevention Initiative, a plan to allocate $100 million in general funds for homeless services, to include the development of emergency, transitional, and permanent housing, establishment of an acquisition and/or predevelopment loan program, and finance operating costs and rental subsidies associated with supportive services programs linked to housing.

CDBG funds also help provide direct supportive services to homeless individuals, families, and special needs populations. The Los Angeles Homeless Services Authority (LAHSA), a joint powers authority between the County and City of Los Angeles, receives CDBG funding from both entities to address the needs of the County's homeless population. Below are two (2) other examples of local agencies using CDBG funding to address the needs of the homeless:

- **$103,508** in CDBG funding has been allocated to Chrysalis, a non-profit, over the last two (2) years, for its job training and employment programs. Homeless persons undergo training to provide maintenance services at properties owned by the CDC.

- **$1 million** in CDBG funding was allocated this past fiscal year, to the Century Villages at Cabrillo, U.S. Vets, and the Long Beach Unified School District for the development and construction of the Mary McLeod Bethune Transitional Center for Homeless Students in Long Beach where homeless children are provided a safe place to go to school.

Economic Development
We have leveraged $3.5 million in CDBG funds with more than $2 million in Economic Development Administration funds to create an award winning business technology center in West Altadena. The center, which opened in 1998, is the only technology incubator in the nation owned and operated by a County agency. It has served as a high technology business incubator, creating more than 525 jobs, and graduating 16 companies. In addition, over 45 percent of the center's firms have received more than $80 million in equity investment. One of most unique features of the center is its location in a redevelopment area, which is mostly a minority community and whose

residents are 48 percent low- or moderate-income. Most high technology incubators are operated by universities or are located in high-technology settings. The County made a conscious decision to locate the center in a redevelopment project area. The primary risk was that the surrounding corridor would dissuade new technology firms from locating at the center. Placing the center in West Altadena met three key objectives: it removed blight, provided an anchor to revitalize a commercial corridor, and used technology to jump-start a disadvantaged community. In addition to the incubator, over $3 million in CDBG funds were utilized to acquire properties, relocate tenants and demolish structures in order to assemble the five-acre Lincoln Crossing Development. This mixed-use development, which is partially completed, will include a school, restaurants, an office building, lofts and affordable housing, etc. A fitness center opened in March 2006 and the Farm Fresh Market, which has been desired by the community for 20 years, is scheduled to open in the late Spring of 2006.

Public Facilities and Infrastructure
CDBG funds are also leveraged with State bond funding designated for library, park and infrastructure improvements to upgrade community facilities, as well as provide new access to services. An example is the Steinmetz Park Senior Center Expansion, located in the unincorporated community of Hacienda Heights, which had a total project cost of about $3.5 million. Approximately $1.83 million in CDBG funds were leveraged with $1.67 million in general funds and Proposition "A" funding to expand the facility which was heavily used but was not able to meet the needs of the growing senior population. With the expansion, the Center is now able to serve many of the 12,000 senior citizens who live in the community.

Highlights of Accomplishments

The following denotes accomplishments resulting from CDBG projects undertaken within the County using the needs identified in the Community Profile. Specifically, from FY 2000 to FY 2004, CDBG funds in Los Angeles County have been used to:

- Rehabilitate over 8,500 homes for families, seniors, handicapped and disabled persons;
- Create and preserve over 2,060 jobs;
- Provide loans and technical assistance to over 7,000 small businesses;
- Remove over 41 million square feet of graffiti;
- Provide after-school and recreation programs to 170,500 children and teens; and
- Provide meals, case management, and other services to 87,500 seniors.

Without CDBG funds, these activities would not have been funded, thus creating a wider gap of unmet needs.

CDBG Formula Reform

As you may know, HUD has released a study with four (4) alternatives to the current formulas that are used to allocate funds to entitlement jurisdictions. The President, in his proposed budget, has indicated that the CDBG formula should be revised to better target funds to needs, however, the budget is vague with respect to how community need would be defined or which, if any, of the four (4) alternatives in HUD's formula study the Administration supports. The Administration's budget also indicates that a formula revision would include a bonus tied to performance. However, again no details on this bonus structure were provided. We would oppose any bonus that would result in funds being taken from existing CDBG formula grant since that would result in a reduction in funds available for allocation.

To date, we are not aware of any congressional field hearings that have been held to solicit input on the formula alternatives and there is no authorizing legislation proposing a change from the current allocation formulas to the alternative formula proposed in the Administration's budget. Prior to the adoption of any change in the CDBG allocation formula, we would request the opportunity for full review of the proposed formula by the national organizations and input by constituents through Congressional hearings. The County of Los Angeles has not adopted a position on any of the formula alternatives, but we would support an alternative that better distributes funds to communities with highest needs and maximizes funding to support the objectives of the Program to develop viable urban communities, provide decent housing and a suitable living environment, and expands economic opportunity primarily for low- and moderate-income individuals.

Wealthy Communities

There has been recurrent discussion relative to the reform of the CDBG Program by reducing or eliminating funds that are allocated to so called wealthy communities. Despite the fact that some communities may be comprised of mostly high income residents, these cities must still comply with regulatory requirements for ensuring that at least 70 percent of their CDBG funds are spent to benefit low- and moderate-income persons, eliminate blight or address an urgent need as a result of a natural or man-made disaster. To do otherwise would result in sanctions by HUD for non-compliance. To illustrate a point, the City of Beverly Hills, a participating city in the Los Angeles Urban County Program, which is typically viewed as a wealthy city, has 21 percent low- and moderate-income individuals, the majority of whom are seniors and eligible for services. But for CDBG, they would not have the benefit of receiving assistance to rehabilitate their homes, participate in social programs ors or have transportation to and from critical life services such as medical appointments or the market.

While we support reform that better distributes CDBG funds to entitlements based on need, we would not support the elimination of funding from so called wealthy communities because even these areas inevitably have low-income seniors and others that need assistance through the CDBG Program.

Reform Needed to Reduce Administrative Burden

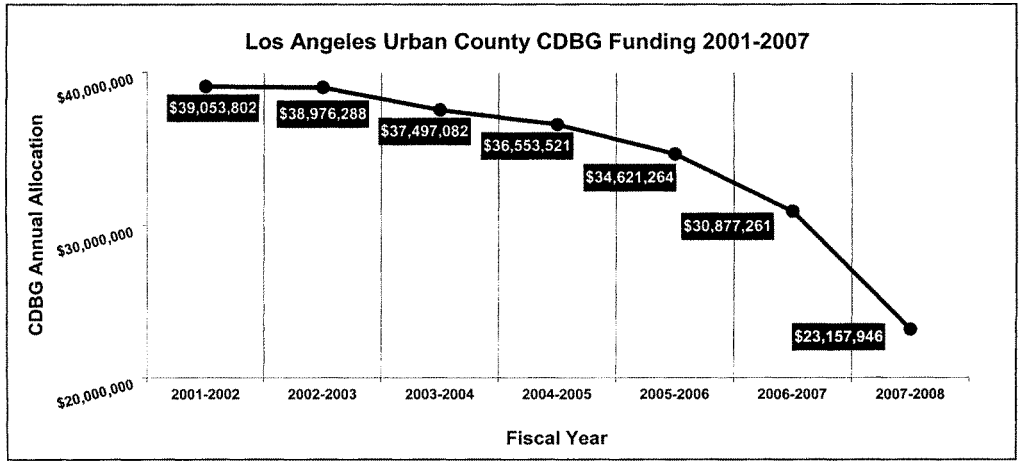
Although CDBG funding has decreased, reporting requirements have increased with the implementation of HUD's Outcome Performance Measurement System (OPMS). While we support the improvement in reporting to capture qualitative data, we would encourage further streamlining by consolidating the annual report and planning documents into an automated process to avoid the duplication of effort. The following changes can be made to the CDBG Program to focus more attention on implementation of projects rather than administration.

- Multiple administrative requirements for the CDBG Program including the Consolidated Annual Performance and Evaluation Report (CAPER), Action Plan, Consolidated Plan, Integrated Disbursement Information System (IDIS), and pending Outcome Performance Measurement System should be consolidated and streamlined. While the intent behind these administrative mechanisms is to improve the process, in effect, it is a duplication of similar reporting requirements and creates an additional burden on grantees. We recommend a relief from the CAPER and the Consolidated Plan reporting requirements, once the new OPMS is executed.

- In its current form, IDIS is not compatible with other large grantee systems. Making IDIS compatible would allow for seamless planning and reporting of the proposed OPMS and eliminate duplication of effort. The quality and quantity of data provided by the largest Urban County would be limited without a system-to-system interface for the electronic transmission of data between grantees and the updated IDIS. This change should also benefit States. It is recommended that the updated IDIS support a data-to-data structure using an Internet standard data format (such as XML) to enable compatibility with the greatest number of grantee systems.

Conclusion

Thank you for the opportunity to speak with you today regarding the importance of the CDBG program and the impact of the Administration's proposal on Los Angeles County residents. We look forward to your continued support of the CDBG Program and extend our offer to assist you in anyway as you work to restore funding of not less than $4.3 billion to this critical program.



Annual Percentage of Reduction

Fiscal Year	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008*
Annual		-0.20%	-3.80%	-2.52%	-5.29%	-10.81%	-25.00%

Accumulative Percent of Reduction From 2001-2002

Fiscal Year	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008*
Cumulative		-0.20%	-3.97%	-6.40%	-11.35%	-20.94%	-40.70%

Dollar Reductions by Fiscal Year

Fiscal Year	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008*
Year-to-year		$77,514	$1,479,206	$943,561	$1,932,257	$3,744,003	$7,719,315

Total Funding Reduction over the Six (6) Year Period: $ 15,895,856

*Fiscal Year 2007-2008 amounts are estimated projections.

Testimony of

Rudolf C. Montiel, PE

Executive Director of the Housing Authority of the City of Los Angeles

In the April 12, 2006 Hearing in

Los Angeles, California

Of

The Subcommittee on Housing and Community Opportunity of

The Committee on Financial Services of

The United States House of Representatives

Good morning Chairman Ney and Ranking Member Waters. On behalf of our residents and Board of Commissioners, I appreciate this opportunity to discuss the importance of Community Development Block Grant funding to Los Angeles, and to the thousands of families struggling toward self-sufficiency in our public housing communities. Our 7229 total units house families, the elderly, and those with disabilities, about 23,000 people.

The Housing Authority of the City of Los Angeles receives funding from the Department of Housing and Urban Development (HUD) to provide housing affordable to low-income households. Communities are not just bricks and mortar. Recognizing this, the City of Los Angeles has awarded Community Development Block Grant (CDBG) funds to the Housing Authority since 1991 to support our efforts to promote family self-sufficiency and safe and healthy communities. CDBG funding has played a key role in our success in raising average household incomes from 17% to 24% of Area Median Income (AMI.)

CDBG funding from the City helps us fulfill our responsibilities to our residents and to the City of Los Angeles as a whole, and support HUD's broader mission of promoting safe, healthy communities and family self-sufficiency, and most importantly, support the Administration's "ownership society."

Over the last four funding years, the City has had to reduce the level of CDBG funds for the Housing Authority by 57%, from $1,471,632 for the 2002-2003 funding year to $631.146 for the 2006-2007 funding year. The annual decline over this period ranged from 13% to 26.4% in the current funding year. The reduction in CDBG funds proposed for the 2007 federal budget would inflict mortal wounds to already weakened programs.

Competition for shrinking service funding is intense. CDBG funds bridge funding gaps in three key areas: education, employment, and family development programs, to support school achievement and attainment, job training and placement, and family health.

- Education: Tutoring, After-school
- Employment: Supportive Services, Job Training, Job Fairs
- Family Development: Anti-violence campaign, back-to-school, computer learning, parenting classes, health fairs, family events, senior activities, cultural and cross-cultural events, and sports

We are also working closely with the City and with the Los Angeles Police Department (LAPD) to improve public safety. Just as bricks and mortar do not make a community, policing alone does not create safe communities. Safe, healthy communities result from constructive interaction of community members in a variety of positive activities supported by a wide range of services and programs. This is as true for those with very low-incomes as it is in our own lives.

Given the extreme challenges Los Angeles faces from organized gangs, low levels of educational attainment, and the City's rank as the "homeless capital of the nation," funding to provide affordable housing and to support healthy communities and self-sufficiency is more important for our city than ever before.

Housing Authority of the City of Los Angeles – CDBG Funding

Purpose

- Foster community, family, and individual achievement – physically, educationally, and socially
- Provide (directly or brokered) job training, safe and healthy communities, internet technology, educational enrichment, civic participation, and individual, family and community improvement action, and cultural and recreational events and activities

Method of Delivery

- Through 16 Community Service Centers located in public housing communities throughout the City of Los Angeles

Recent Funding History

2002	2003	2004	2005	2006
$1,471,632	$1,217,576	$1,058,159	$857,750	$631,146

KEY AREA	SERVICES	2006 PROJECTED PARTICIPATION
Family Development	Parenting and Childcare classes	90
	CLC Family Lab	80
	Youth Sports	600
	Field Trips and Cultural Events	400
	Transportation	100
	Arts programs	600
	Cooking Classes	100
	Senior Activities	200
	TOTAL	**2,170**
Education	Homework Clubs	600
	Spelling Bee	400
	Homebuyer Education	0
	Financial Literacy	0
	TOTAL	**1,000**
Employment	Adult/Youth	110
	Career Fairs	59
	Employment Preparation Workshops	50
	ESL	100
	Supportive Service	75
	Transportation	100
	Office Automation Training	250
	Career/College Curriculum	50
	Job Shadowing/Mentoring	150
	Resident Training/Employment	50
	TOTAL	**994**

United States House of Representatives Committee on Financial Services
Subcommittee on Housing and Community Opportunity, Bob Ney (R), Chairman

Testimony of Mitchell Netburn, Executive Director, Los Angeles Homeless Services Authority

April 12, 2006

Mr. Chairman and members of the Subcommittee, I am honored that you have invited the Los Angeles Homeless Services Authority to testify on the value of the Community Development Block Grant (CDBG) Program as a vital tool to help end homelessness.

The Los Angeles Homeless Services Authority, known as LAHSA, is a joint powers authority of the City and County of Los Angeles. Founded in 1993, LAHSA is governed by a ten-member commission. Each of the five Los Angeles County Supervisors appoints one commissioner and the Mayor of the City of Los Angeles appoints the other five commissioners, with approval of the City Council.

LAHSA has been the lead coordinator for the second largest Continuum of Care system in the country since the inception of U.S. Department of Housing and Urban Development (HUD) Continuum of Care funding process. The Continuum of Care requirements enable LAHSA to vigorously pursue a regional approach to addressing homelessness. This is critical to successfully address homelessness, especially given the geography covered by our continuum – four thousand square miles – and the extreme differences in infrastructure and needs across our County. Moreover, Los Angeles County encompasses 88 jurisdictions, including 34 entitlement cities.

Nature and Extent of Homelessness in Los Angeles County

Based on recent statistics, the City of Los Angeles has now been titled the "Homeless Capital" of the United States and according to Philip Mangano, Executive Director of the U.S. Interagency Council on Homelessness, "1 in 9 people who are homeless in America resides in Los Angeles County".

Mr. Mangano's statistic was based on the Greater Los Angeles Homeless Count, which was conducted in January of 2005 by LAHSA. The count involved a point-in-time enumeration and a survey of 3,300 people who were homeless to learn about their characteristics. The findings from the count estimated that more than 240,000 men, women and children experience homelessness each year in Los Angeles County and 88,000 on any night, more than any state in the nation, except for California. The vast majority, 88%, are living on the streets or other places not meant for human habitation, such as cars or abandoned buildings.

What we also learned from count is that:

- More than 40% of the homeless population (more than 34,000 people) have both a disability and experience long-term or repeated homelessness, meeting the Federal definition of chronic homelessness;

- There are 6,561 homeless families. About one-quarter (24%) of the homeless population are women;

- Veterans comprise 19% of the homeless population, while youth less than 18 years of age represent 16%. Among homeless youth, a significant number are runaways and emancipated foster youth.

The diverse characteristics of individuals and families who are homeless and their many paths into homelessness point to the need for comprehensive and long-term efforts such as the need to expand the availability of housing and supportive services.

In addition to homelessness, Los Angeles County has experienced increasing poverty and diminishing housing resources for our lowest income residents. The Los Angeles County poverty rate is nearly 18% and the cost of housing has increase substantially over the last few years.

Importance of Community Development Block Grant Funds

The Community Development Block Grant Program provides critical funding to address acute problems of communities, such as poverty and homelessness. LAHSA utilizes CDBG funds for a wide range of homeless services and housing.

For example, just last week, the Bring Los Angeles Home Blue Ribbon Panel held a press conference to launch a 10-Year Campaign to End Homelessness in Los Angeles County, which is in keeping with President Bush's Initiative to End Chronic Homelessness. A key strategy of the Bring L.A. Plan is to create 50,000 units of affordable housing targeted to people who are homeless. Community Development Block Grant funding is proposed to comprise 20% of the money necessary to achieve the goal of 50,000 units.

Contributing to L.A. County's homeless problem is the County's affordable housing crisis. For example, within the City of Los Angeles, there is a 3% rental housing vacancy rate based on recent reports. Not only does this mean a tighter housing market for low-income renters, but those who are fortunate enough to receive a Section 8 voucher are finding fewer and fewer landlords willing to rent to them. To address this situation, in November 2005, Los Angeles Mayor Antonio R. Villaraigosa announced a commitment to add $50 million, including CDBG funds, to the City's Housing Trust Fund for permanent supportive housing for Los Angeles' neediest residents.

Impact of the proposed cuts to housing and services for homeless people

The CDBG funding that LAHSA receives on an annual basis has been an invaluable resource for the agency and its service providers who are working in the trenches to end homelessness. Currently, LAHSA receives about 19% of its overall budget from CDBG funding. Therefore, a proposed reduction of more than 20 percent to the CDBG program would be devastating to Los Angeles.

To cite just one example, CDBG funded programs provide 203,188 bednights for people who are homeless in Los Angeles. Assuming a 27% cut, the total number of bednights would be reduced by nearly 55,000 bednights. These reductions would severely cripple efforts to address homelessness, especially in Skid Row, South Central and Hollywood.

CDBG funding provides a major foundation for homeless service providers as well as a major resource for Los Angeles as it seeks to implement strategies to end homelessness. The City and County of Los Angeles have made significant commitments of resources to end homelessness and collectively are moving in the same direction. Any overall reduction in CDBG funding or changes to the allocation formula which will reduce Los Angeles's share of CDBG funds will force people back on the streets and significantly impact our ability to end homelessness.

On behalf of the homeless community in Los Angeles, I thank you for this opportunity to provide testimony. We unequivocally support maintaining the current level of CDBG funding so that we will have the critical resources and federal leadership necessary to reach our mutual goal of ending homelessness.

STATEMENT BY DEPUTY MAYOR BUD OVROM

Subcommittee on Housing and Community Opportunity
Community Development Block Grants (CDBG) Field Hearing
April 12, 2006

California Science Center, Loker Conference Center
Exposition Park, 700 State Drive
Los Angeles, CA

Good morning, Honorable Members.

I am pleased to present testimony today on behalf of Mayor Antonio Villaraigosa.

Although the Mayor is very distressed by the President's FY 2007 budget proposal to consolidate and reformulate funding for the Community Development Block Grant (CDBG) program, we are certainly encouraged by the commitment of Congress to understand the impact of this proposal on the nation's low and moderate-income population. Thus, on behalf of the Mayor and everyone here, allow me to say how pleased we all are that you are in Los Angeles.

As you may know, the Mayor was recently appointed to be the Chair of the U.S. Conference of Mayors Task Force on Poverty, Work and

Opportunity. We are very excited to work with Mayors around the country to address the important issue of poverty by developing strategies that will make our federal, state, and local dollars stretch further while enhancing the positive impact we can make on the lives of the poor. At the same time, the Mayor looks forward to working with Congress to ensure that the critical programs and services funded by CDBG are preserved for the people that rely on them.

As you will hear in other testimony this morning, CDBG funding is vital to the City of Los Angeles. For over 30 years, CDBG has been one of the most effective tools available to the government to strengthen local communities. CDBG provides the flexibility and the funding to address the needs of poor and working families who continue to face tremendous quality of life and opportunity challenges.

Here, in Los Angeles—in the undisputed commercial and cultural capital of the richest state in the wealthiest nation in the world—you see close to 10,000 homeless children. Thousands of kids arrive in public schools every day who don't have a bed for the night.

Poverty, however, is not just confined to Los Angeles.

It has been fifty years since Brown versus the Board of Education, but one third of African American children still live in poverty.

Across the country, six million school children are on the verge of failing out of school.

Eleven million Americans can't read a bus schedule or fill out a job application.

Three and a half million people sleep in shelters and doorways, and underpasses.

These statistics are constant reminders of what level of work remains to be done in this City and across the Country.

That is why the Mayor remains deeply concerned that the city again continues to face substantial reductions in federal funding for programs funded under our Housing and Community Development Consolidated Plan, particularly the CDBG program. Last year, that reduction amounted to approximately $9 million, or 11% of our allocation for the previous year.

While our federal allocation shrinks, the need for services and the number of requests for funding continues to grow. For the 2006-2007 Program Year, the City received a total of 215 applications requesting in excess of $254 million in CDBG support. It is my hope that policy leaders in Washington do not to confuse the disappearance of this program with the disappearance of the problem of poverty.

I will now turn it over to our General Manager of the Community Development Department, Clifford Graves, and others to share with you some of the great program efforts funded in the city with CDBG dollars. Cliff will provide you with an outline of how the city historically uses these funds and how any additional reductions will impact the city and its residents.

Again, thank you for the opportunity to address you this morning and thank you for your interest in Los Angeles.

WRITTEN STATEMENT OF
ASSISTANT SECRETARY PAMELA H. PATENAUDE
U.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FIELD HEARING ON

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

BEFORE THE

HOUSE SUBCOMMITTEE ON HOUSING AND

COMMUNITY OPPORTUNITY

U.S. HOUSE OF REPRESENTATIVES

LOS ANGELES, CALIFORNIA

APRIL 12, 2006

Good morning. I am pleased to be here in Los Angeles on behalf of Secretary Alphonso Jackson.

Thank you, Chairman Ney and Ranking Member Waters for scheduling this field hearing to discuss the reform of the Community Development Block Grant (CDBG) program. As Assistant Secretary for the Office of Community Planning and Development, I am responsible for the administration of the CDBG Program.

The CDBG program has been the Federal government's primary vehicle for assisting state and local governments in undertaking a wide range of community development activities aimed at improving the lives of low- and moderate-income families. During the past three decades, over 113 billion dollars have been appropriated for the CDBG program. These funds provide a ready source of funding for housing rehabilitation, public services, infrastructure, and economic development activities.

The President's Fiscal Year 2007 Budget retains the CDBG program at HUD and proposes a funding level of just over 3 billion dollars, with the recognition that the program's impact has become diffused over time. The upcoming CDBG reform proposal will improve CDBG's ability to target community development needs and demonstrate results. To achieve these reforms, the budget identifies a series of legislative initiatives that, if enacted, will strengthen and sustain the CDBG program in the future. The implementation of this reform package is essential to ensure that CDBG funds flow to the Nation's neediest communities to expand economic opportunity in measurable ways.

These revisions address the CDBG formula, implementation of a CDBG challenge grant, consolidation of duplicative programs and improved performance measurement requirements that will better enable HUD and its grantees to demonstrate the benefits of the CDBG program.

Revising the CDBG formula is very important. The CDBG formula has been essentially untouched since the 1970's. Over the past decade, we have witnessed steady erosion in the ability of the formula to target CDBG funding to community development need. Demographic changes, development patterns and other factors have created significant distortions in the distribution of CDBG funds.

In February 2005, HUD released a study that identified two serious deficiencies that result from the current formula. First, many communities with lesser need for CDBG funds receive much more per capita than many communities with greater need. Second, many communities with similar needs receive very different per capita amounts.

Three elements in the current CDBG formula create the funding inequities. To preface this discussion, please understand that there are two Formulas - A and B – and grantees received the benefit of the formula that provides them with the largest grant.

The first problem is that the most needy grantees funded under Formula A do not get substantially more on a per capita basis than the least needy grantees. This flatness is due primarily to the 25 percent weight on population in Formula A.

Second, Formula B grantees of similar need often get very different per capita grant allocations. This relative inequity primarily results from the pre-1940 housing variable, which allocates substantial amounts to some communities that have old housing but otherwise have a low level of community development need.

Third, Formula A grantees get less than similarly needy Formula B grantees. This inequity results from the share of the need represented by the variables in Formula A being spread across both Formula A and Formula B grantees, while the share of need represented by growth lag and pre-1940 housing in Formula B is largely concentrated among Formula B grantees.

For example, here in California, the cities of Santa Monica and Santa Maria have approximately the same population. Under the current formula, they both receive about 1.3 million dollars. However, in terms of need, they are very different. Santa Monica, with a per capita income of $43,000, has a relatively low level of distress while Santa Maria, with a per capita income of only $14,000 has significantly more distress and thus has greater community development needs. Under the formula the Administration will propose, Santa Maria's grant would increase to $1.6 million while Santa Monica's grant would fall to $750,000.

I think we can all agree it is critical to restore equity to the distribution of funds to improve targeting and preserve the fairness of the CDBG program.

The second major CDBG initiative proposed in the President's Budget is the establishment of a CDBG Challenge Fund. This fund would provide CDBG grantees with the opportunity to obtain additional funding to carry out community and economic development activities in distressed neighborhoods to improve the quality of life in those neighborhoods.

In order to be considered for challenge grant funds, grantees will be required to have a strategy that concentrates public and private investment in distressed neighborhoods and have a track record of investing its CDBG funds in those neighborhoods.

In addition, to be eligible, communities will be required to demonstrate clear measures they have taken to support economic opportunity in such neighborhoods that show the strongest performance on this and other measures amount from the Challenge Grant Fund augment.

A third element of the reform consolidates programs, such as the Brownfields Economic Development Initiative (BEDI), Rural Housing and Economic Development Program, and the Section 108 Loan Guarantee program into the overall CDBG formula program. The consolidation will eliminate duplicative activities and give communities even more

flexibility. In almost every case, the activities eligible for assistance under these programs can be funded through the CDBG program.

For example, the Section 108 and BEDI programs are authorized through the CDBG statute and may support most of the same eligible activities. In July 2004, HUD issued a proposed rule that would make it easier to carry out brownfields activities through the CDBG program. We hope to finalize this rule in the next several months.

Finally, HUD is implementing its new performance measurement framework to establish clear, measurable goals and community progress indicators for our formula programs. This is a part of a broader effort to improve economic and community development programs and develop a common performance framework for those programs across the federal government. HUD published the final notice on performance measurement in the Federal Register on March 7th. This collaborative effort of more than two years involved grantees, public interest groups and the Office of Management and Budget. HUD will be conducting 15 workshops and information sessions across the country this summer to ensure the successful implementation of the framework.

To guarantee the effectiveness and viability of the CDBG program in the 21st Century, the Department's legislative proposal on CDBG will include provisions to strengthen requirements with regard to performance measurement to hold grantees accountable for their own goals. While implementation of the framework is a significant step forward, HUD must have the tools to hold grantees accountable in cases where they do not achieve results.

Critical to the success of this performance measurement effort are improvements to HUD's Integrated Disbursement and Information System, commonly referred to as IDIS. We are working with HUD's Office of the Chief Information Officer to expand the ability of IDIS to collect performance data on the effectiveness of our formula programs and to continually ensure internal controls for accountability. This is one phase of the overall modernization plan that will transition the system to a state of the art technology solution.

A second IDIS initiative will be the release of additional enhancements that will transform the current, antiquated version of IDIS into a user-friendly, web-based system in the fall of 2006. These enhancements to IDIS will not only improve the functionality of the system for grantees but will also be the vehicle for collecting the data necessary from its programs and sub-grantees to demonstrate the effectiveness of the CDBG and other formula programs in order to comply with initiatives such as the President's Management Agenda and the Government Performance and Results Act (GPRA).

Let me also mention the important role that CDBG performs with respect to disaster recovery. Historically, CDBG has played an important role in providing critical financial assistance to communities following natural and man-made disasters. Since 1992, Congress has allocated more than 16 billion dollars for CDBG disaster recovery assistance. These funds have supported recovery efforts following the Midwest floods of

1993 and 1997, the 1994 Los Angeles earthquake, the Oklahoma City bombing and the September 11, 2001 terrorist attacks.

To aid the recovery of the Gulf Coast in the aftermath of the devastating hurricanes of 2005, Congress appropriated 11.5 billion dollars in CDBG supplemental funding for rebuilding efforts. Recently, President Bush requested an additional 4.2 billion dollars in CDBG supplemental funding for the State of Louisiana for housing and flood mitigation.

CDBG helps communities across the nation address a variety of needs. However, reforms are necessary to improve the ability of the program to improve and expand the economic opportunities of the lives of low- and moderate-income Americans. By revising the CDBG formula, adding a Challenge Fund, consolidating programs that duplicate efforts, and implementing a new performance measurement framework, we will successfully address the many concerns regarding the CDBG Program.

I thank you for this opportunity to speak with you about the Administration's proposals to reform the CDBG Program, and I look forward to answering your questions.

U.S. House of Representatives
Committee on Financial Services
Subcommittee on Housing and Community Opportunity Field Hearing
Community Development Block Grants (CDBG)
The Impact of CDBG on Our Communities
Testimony of Brenda Shockley
April 12, 2006
Los Angeles, California

Thank you, Chairman Ney, Congresswoman Waters, and other honorable Members of the Subcommittee for allowing me to testify today on the impact of the Community Development Block Grant (CDBG) Program on communities in South Los Angeles. My name is Brenda Shockley. I am, and have been the president of Community Build, Inc. (Community Build), a nonprofit community development corporation, for approximately 14 years. Community Build was among those organizations established in response to the 1992 Los Angeles Civil Unrest. Community Build has a dual mission: revitalization of our community through human investment and commercial economic development. Community Build is committed to empowering our communities through commercial and housing development; and our young people by investing, training, and equipping them with the skills, resources, confidence and encouragement they need to become self-sufficient participants in community development.

My general comments echo those of most local governments and community development advocates and organizations: The proposed 27% cut in CDBG funding, in addition to the prior years' annual cuts, will make it even more difficult to administer effectives programs to add new and sustain existing jobs, provide decent affordable housing in safe neighborhoods, and to provide needed public services. The proposed formula changes, coupled with the elimination of the Brownfields Economic Redevelopment Initiative, Rural Housing and Economic Development, and Section 108 Loan Guarantees, will further reduce funding for one of the most flexible and highly leveraged federal resources.

That said, I am here today to put a face on the type of organizations, programs and communities that have significantly benefited from both direct and indirect CDBG funding. Community Build's initial funding, in 1993, was a $ 3 million CDBG "Emergency Assistance" grant in the aftermath of the Civil Unrest. That funding was matched by $1.5 million in State funding, and was used to provide employment training services to youth and young adults, and partially finance the development of 24,000 sq.ft. commercial development in Leimert Park on a site that had been destroyed. That development has spurred further development in Leimert Park, and revitalized the commercial village with office space, restaurants, coffeehouse and theatre.
Direct CDBG funding also strengthened Community Build's organizational capacity. In addition to the commercial development in Leimert Park, Community Build has developed a 9,000 sq.ft. youth center that has served over 12,000 youth and young adults since 1994, and annually serves a minimum of 1200 youth and young adults.

Community Build has also received CDBG funding indirectly, through the City of Los Angeles. Community Build strives to provide a one-stop environment to youth and their families. As a result, we access CDBG funds each and every day: whether it is a referral to a homeless shelter, housing rehabilitation, homeownership assistance, nuisance abatement, or the targeted neighborhood initiative. By way of example, Community Build provides "safe passage" to the youth in our gang prevention middle school program, LA Bridges, through LA Bridges II, which is funded by CDBG. We are slated to provide gang prevention and intervention in an expanded geographic area using CDBG funding. We partner with Jennesse Center, a domestic violence prevention organization that is funded by CDBG; our youth participate in programs at the Youth Media Technology Training Program that is funded by CDBG; Community Build refers students and their families to the Rita Walters Learning Complex on Manchester and Vermont, and to the Youth and Family Centers/Family Development Networks in our community, both funded by CDBG.

CDBG funding, especially the 108 loan program, is critical "glue" for some projects, and critical leverage for others. The flexibility of the funding allows organizations like Community Build to access conventional bank financing by "blending" rates to make debt service manageable. The Brownfields program is particularly important to communities such as ours that have experienced long-term disinvestment, leaving potential development sites with toxic materials. Community development and revitalization require as many tools as possible. CDBG funding is one of the most effective tools for turning around neighborhoods, and turning around lives. For organizations such as Community Build, decreasing these resources and eliminating important programs such as Brownfields, will not only be crippling, it will be devastating. Thank you for the opportunity to offer testimony and urge you to restore the CDBG programs and funding.

Respectfully submitted,

Brenda Shockley
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Testimony to the Sub- Committee on Housing & Community Opportunity
Wednesday, April 12, 2006
9:00 A.M.
California Science Center
Los Angeles, California
Submitted By:
Marva Smith Battle-Bey
President
Vermont Slauson Economic Development Corporation
Los Angeles, California

Saving CDBG again- is extremely important to the work of VSEDC and to all the CDCs who are involved in the revitalization of their neighborhoods. The uses have been detailed. The effect of eliminating the Community Development Block Grant (**CDBG**), this year, which funds affordable housing, day care centers, shelters, senior centers, and more, is obvious and quantifiable

From a community user point of view this money is hard to acquire but worth it because it is flexible by design. One must defend its flexibility. As a community builder that is important. Gang prevention is crucial in LA; in Muskegon Michigan it may not be. There are IN ADDITION needs in my neighborhood that do not exist in other parts of LA

The flexibility of the current program is a key component of its success in revitalizing older neighborhoods. "**CDBG** has played a critical role in rejuvenating distressed neighborhoods and alleviating economic decline in all types of communities. However, **CDBG** is not just a jobs creator or economic development incubator, it is also a catalyst for new public infrastructure."

The private sector has not historically gone it alone in south LA. This money is a catalyst for investment dollars and data suggests it is leveraged 3 to 1 (OMB WATCH)

Congress should fully fund **CDBG** formula grants at current levels and I raise three concerns with the Administration. The proposal would drastically reduce community development funding that cannot be replaced; alter eligibility requirements to the disadvantage of some low- and moderate-income communities; and, most importantly, narrow the mission of the program, which would reduce its flexibility and effectiveness.

Zeroing out 140 programs is one thing—but the poor are disproportionately affected. To lose OCS and to have CDBG attenuated has human consequences in addition to sticks and bricks

The proposed cuts affect everybody but hurt some more than others. A reduction disproportionately hurts south LA because of the need and the scale that is required to make projects meaningful. My supermarket and chesterfield square use a lot of CDBG 108 dollars that are already scarce. A cut means these projects don't get completed—and neither does façade improvement, senior projects and other uses already called out by the local administrators of the pass through dollars

One idea beyond blocking the cuts is changing the way the dollars are used--because only 70% of CDBG funds have to benefit low or moderate-income people, and because all of the funding could benefit moderate-income people, many of the lowest income households never benefit from the program. Advocates can organize at the local level to get 100% of a jurisdiction's CDBG to be used for activities that benefit lower income people, and can strive to have more used to benefit extremely low income people.

Advocates at the community level see advocacy differently than the other speakers on the dais. They need to use the public participation process to organize and advocate for more CDBG dollars for the kinds of projects they really want in their neighborhoods, and then monitor how these funds are actually spent. To do this, however, one must obtain and study the jurisdiction's Annual Action Plan (which lists exactly how a jurisdiction plans to spend CDBG funds in the upcoming year), as well as the Grantee Performance Report (C04PR03) which lists exactly how CDBG money was spent the previous year.

In LA one might say we need more money for economic development in general—and in particular we need more to support the current use of CDBG money. For example the City spends only 2 million dollars on technical assistance to small business but the data shows the economic engine is still business under 50 employees. We need to spend more on economic development.

JAN PERRY
COUNCILWOMAN
NINTH DISTRICT
ASSISTANT PRESIDENT PRO TEMPORE

City Council
of the
City of Los Angeles
City Hall

ENERGY AND THE ENVIRONMENTAL
CHAIR

ARTS, PARKS, HEALTH & AGING
VICE-CHAIR

HOUSING, COMMUNITY &
ECONOMIC DEVELOPMENT
MEMBER

April 11, 2006

The Honorable Robert W. Ney
Chairman, Subcommittee on Housing and Community Opportunity
U.S. House of Representatives
2438 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Ney:

It is obvious that a reduction in CDBG allocation for the City of Los Angeles will further drive more people into poverty and homelessness. Los Angeles County is now the homeless capital of the United States. One of the most disturbing characteristics of the homeless population here is that 42% are "chronically homeless."

The City of Los Angeles is regulated under the 15 percent cap for Public Services while developing the annual CDBG budget. This significantly impacts our ability to serve the growing number of homeless individuals that need our help. Women with children are now becoming homeless at an alarming rate. We need programs that can work to prevent this from occurring. Programs like Rent to Prevent Eviction and support programs for families that are at risk of homelessness.

Persons that have been incarcerated face huge challenges. Re-entry programs are positively impacting their ability to avoid arrest, rebuild their lives through job training, supportive housing and recovery programs. We know that service providers can and do make a huge difference in the lives of those at risk of becoming homeless and those that are homeless.

Any reduction of the Community Development Block Grant allocation negatively impacts our ability to serve those that comprise the rest of the homeless population. The chronically homeless have complex problems. Many have a long history of serving time in jail or prison. Many suffer from mental illness and substance abuse. The average length of time of living on the street for the chronically homeless is now eight years, before we can move these individuals in to stable housing with supportive services.

CITY HALL • 200 NORTH SPRING STREET • SUITE 420 • LOS ANGELES, CA 90012 • (213) 473-7009
DISTRICT OFFICE • 4703 S. BROADWAY AVE. • LOS ANGELES, CA 90037 • (323) 846-2651

We are seeking ways to work far more effectively with Los Angeles County. We are working to integrate services and develop special courts to allow alternative sentencing and treatment with support programs for persons with mental illness and to find long lasting solutions to help these clients find success in their lives.

We cannot continue to suffer reductions in block grant funding. We need to increase percent cap for public services. We need and we deserve far more. We are successful in many ways in Los Angeles. We have proudly built thousands of units of permanent supportive housing for persons with special needs. We want to and are willing to do far more. It is shocking to see so many elderly frail, women with children, families, victims of domestic violence, veterans, the mentally ill and persons suffering from substance abuse all seeking and needing emergency homeless services. Without significant help from the federal government I can guarantee that we will continue to grow the homeless population in this region. 88,000 is a huge number. We do not have the infrastructure to address this critical issue. It is a matter of national interest. It is critical that we have as much support as possible to assist the people that need it the most.

The Federal Community Development Block Grant fund program is an essential tool in our effort to address homelessness and poverty. Continued reductions will profoundly affect the lives of thousands of people that need our help the most.

Sincerely,

Jan Perry
Councilwoman CD 9

CC: The Honorable Maxine Waters
The Honorable Barbara Lee
The Honorable John Campbell
The Honorable Gary Miller, Vice Chairman

HERB J. WESSON, JR.
COUNCILMEMBER, 10TH DISTRICT

April 12, 2006

The Honorable Robert W. Ney
Chairman, Subcommittee on Housing and Community Opportunity
U.S. House of Representatives
2438 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Ney:

As members of the Los Angeles City Council, representing districts with high concentrations of poverty we write to express our strong support for the Community Development Block Grant (CDBG) program and urge Congress to reject the President's proposed changes to the CDBG program.

The CDBG program has been critical in helping the City of Los Angeles provide for the needs of our neediest residents – many of whom live in our districts – at a time when the City's resources are strained. Between 1990 and 2000, poverty in Los Angeles increased over 20 percent while nationwide poverty decreased by 10 percent. One in four children in our City lives in poverty. Teenage mothers account for 11 percent of all births in the City, and Los Angeles has one of the largest homeless population in the country. Like most jurisdictions within the State of California, the City of Los Angeles has also been under tremendous fiscal pressure over the past few years as a result of a weak economy.

At the same time, the City has seen a significant erosion of its CDBG allocation over time. Since 1996, the city's CDBG allocation has decreased by $23 million (31 percent). The current fiscal year's cuts in funding alone translated to a loss of $8.95 million (10.8 percent) in CBDG dollars.

Large, urban cities like ours need the assistance of the federal government to meet the important needs of our most vulnerable and underserved residents. In Los Angeles, for example, the Community Development Block Grant has been critical in allowing us to fund urban economic development projects, to provide opportunities for our families to be successful, to ensure safe activities for our youth, and to provide shelter and supportive services for homeless individuals

200 NORTH SPRING STREET • LOS ANGELES, CALIFORNIA 90012 • PHONE: (213) 473-7010 • FAX: (213) 485-9829
EMAIL: COUNCILMEMBER.WESSON@LACITY.ORG

and victims of domestic violence. Many of these programs and projects would not have been able to survive without the assistance provided through CDBG funding.

In addition to our support for the continuation of the CDBG program, we urge you to reexamine the cap on Public Services within the CDBG program. More specifically, we urge you to increase the current 15 percent Public Services cap. As we have indicated earlier, the City of Los Angeles relies on CDBG funds to help provide essential services and programs for low-income and very low-income residents. There is also added pressure on the cap when services or organizations cannot qualify as a Community Based Development Organization (CBDO), even though their services may partially qualify. Because of the magnitude of the City's needs and because of the restriction imposed by the cap, the City has had to reduce funding – if not eliminate funding altogether – for many deserving and critical programs and services.

Finally, we want to thank you and your colleagues for bringing the Subcommittee to the City of Los Angeles to hear our perspective. We hope that at the conclusion of your hearings you will agree to continue the Community Development Block Grant program – even expand it – and reject the President's proposed changes. We also urge you to seriously consider increasing the Public Services cap, particularly for large, urban cities like the City of Los Angeles.

Thank you for your consideration. We look forward to working with you and your colleagues in the future.

Sincerely,

BERNARD PARKS
Councilmember, 8th District

JAN PERRY
Councilmember, 9th District

HERB J. WESSON, Jr.
Councilmember, 10th District

cc: The Honorable Maxine Waters
The Honorable Barbara Lee
The Honorable John Campbell
The Honorable Gary Miller, Vice Chairman

Mar-03-06 10:26am From-Congresswoman Hilda L. Solis (CA-32) 626 448 8062 T-142 P.001/001 F-053

CITY OF EL MONTE
CITY MANAGER'S OFFICE

Juan D. Mireles
City Manager

James W. Mussendon
Assistant City Manager

March 2, 2006

(FAX: (626) 448-8062)
The Honorable Hilda Solis
Congresswoman, District No. 32
4401 Santa Anita Avenue
El Monte, CA 91731

Dear Congresswoman Solis:

RE: Support for Community Development Block Grant Funding Request to Sign "Dear Colleague" Letter

On behalf of the City of El Monte, I am hereby respectfully requesting that you co-sign the "Dear Colleague" letter from Representatives Christopher Shays and Barney Frank to Budget Chairman Jim Nussle and Ranking Member John Spratt opposing the proposed cuts in the FY 07 HUD budget, and particularly opposing cuts to the Community Development Block Grant program.

The need for CDBG funding in the state has never been greater. California faces staggering housing and property values, increasing the need for CDBG funds to help expand affordable housing. Eliminating CDBG funding for housing and community development programs would have a profoundly devastating impact on neighborhoods throughout the state.

To co-sign this letter, please call or email Jordan Press (Shays) at 5-5541 or Meredith Connelly (Frank) at 5-7054. If you need further information, please do not hesitate to contact me.

Sincerely,

JUAN D. MIRELES, City Manager

11333 VALLEY BOULEVARD, EL MONTE, CALIFORNIA 91731-3293 / (626) 580-2001 / FAX (626) 453-3612
EMAIL: CityManager@el-monte.ca.us WEBSITE: www.el-monte.ca.us

03/02/2006 16:45 4538612 ADMINISTRATION PAGE 01/01

City of Monterey Park

320 West Newmark Avenue Monterey Park California 91754-2896
www.ci.monterey-park.ca.us

City Council
Betty Tom Chu
Mike Eng
David T. Lau
Sharon Martinez
Benjamin "Frank" Venti

City Clerk
David Barron

City Treasurer
Mitchell Ing

RECEIVED
MAR 1 2 2006

February 28, 2006

The Honorable Hilda Solis
32nd Congressional District
1641 Longworth
Washington, DC 20515

RE: REINSTATEMENT OF COMMUNITY DEVELOPMENT BLOCK GRANT FUNDING

Dear Congress Member Solis:

This letter is to respectfully request that you co-sign the "Dear Colleague" letter from Representatives Christopher Shays and Barney Frank to Budget Chairman Jim Nussle and Ranking Member John Spratt opposing the proposed cut of the Community Development Block Grant (CDBG) program in the Administration's FY 2007 Budget.

The safety and welfare of our Community is at stake. The President's proposal of $1 billion reduction in CDBG funding will be devastating to California and the City of Monterey Park. Our City already faces budget related problems that will affect our quality of life. We need these funds to remain strong and secure.

Economic vitality is important to our residents. Without funding, employment will be affected, as jobs will decrease or disappear altogether. Expansion of affordable housing projects will greatly assist our residents as the cost of real estate and property values continue to soar. CDBG funds also provide much needed services such as childcare, after school programs and gang intervention activities. Without funding, blight elimination will also become a major concern.

We ask that you oppose the proposed budget cuts that will eliminate public services but most importantly inhibit the revitalization of our community.

Thank you for your assistance.

Sincerely,

Benjamin "Frank" Venti
Mayor

C: City Council
City Manager

MAYOR:
GARY A. TAYLOR

MAYOR PRO TEM
JOHN NUÑEZ

COUNCILMEMBERS:
MARGARET CLARK
JAY T. IMPERIAL
JOHN TRAN

City of Rosemead

8838 E. VALLEY BOULEVARD • P.O. BOX 399
ROSEMEAD, CALIFORNIA 91770
TELEPHONE (626) 569-2100
FAX (626) 307-9218

April 11, 2006

Honorable Hilda L. Solis
1725 Longworth House Office Building
Washington, D.C. 20515-0532

SUBJECT: **COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM PROPOSAL**

Dear Congresswoman Solis:

I am writing to urge that you oppose the Administration proposal to seriously reduce the amount of funding for the Community Development Block Grant (CDBG) Program. This program has been vitally important to the City of Rosemead and, indeed, is the linchpin of our community development program. The program suffered a 9% reduction last year. Indeed, with the addition of new grantees and continued budget cuts, the City of Rosemead has already seen its entitlement shrink from $1,541,916 in FY 2002-2003 to $1,175,157 in FY 2005-2006, a reduction of 24%.

Without proper funding for CDBG, we risk undermining the social and economic well being of our communities, the future generations that will live in them and the future of the nation as a whole. CDBG has been instrumental to the City of Rosemead in its ability to make effective change within the community. The following are but a few examples of the powerful impact of this program:

- *One of the main programs available to preserve housing for current and future generations.* The City uses CDBG to provide residential rehabilitation to home owners who earn 80% or less of the median income in our area. In **the last five (5) years alone, the City is providing assistance to over 100 households.** These households would otherwise be forced to either live in substandard conditions or to sell a home they could no longer maintain. The **vast majority of households** that receive assistance through the program **are elderly or handicapped/disabled.** The current year budget for assistance is $300,000. The City is currently working with over 30 households for assistance in FY 2005-2006.

- *One of the few programs that allow for remediation of lead-based paint in residential units.* The City does not receive a grant for lead remediation. In fact, **very few cities receive funds to reduce the dangers of lead paint in residential units constructed prior to 1978**. The City **uses CDBG funds** to test for lead paint in low-to-moderate income units undergoing residential rehabilitation and to rehabilitate units that contain lead-based paint. To date, **the City has tested more than 70 units in the last three (3) years** and has **provided lead grants to more than 20 households in the last three (3) years**.

- *A mechanism for building public infrastructure.* The City has invested a large amount of CDBG funds in its low-to-moderate income neighborhoods. Over the past four (4) years, the City has used CDBG funds for a variety of infrastructure improvements including: using $2.6 million in CDBG funds for a **new community center**, with on-site pre-school in the City's lowest income neighborhood; used $150,000 in funds for construction of a **new water well** to replace a collapsed and contaminated well for a low-moderate income neighborhood; used $342,255 in CDBG funds for **installation of street lights** in low income neighborhoods; used $407,472 in funds for **street improvements and tree planting** in low income neighborhoods; expended $31,539 to make it more difficult for graffiti artists to mark important **street and traffic signage** in low income City neighborhoods and has budgeted an additional $57,000 to complete almost all low income neighborhoods in the City.

- *One of the few funding sources available for compliance with the American with Disabilities Act.* The City has **completed two (2) ADA accessibility projects** in the last five years at a cost of $265,946; the City is **currently installing a third ADA project** at a budgeted cost of $290,000 for a total of $555,946 for disabled residents, resulting in improvements that allow our residents access throughout the City. This accessibility **directly affects our 8,215 disabled citizens** (26.9% of the City's population).

- *A powerful tool for assisting individuals and households.* The CDBG program allows for 15% of annual grant funds to be used for public services. In the last four years, from July 1, 2000 through June 30, 2004, the City has funded services that provided the following: provided **childcare scholarships to 19 households** to allow family members to work; **served 449 youth and parents in peer mediation** through the school district; **provided 98,386 meals to seniors** through the Senior Nutrition program; **provided counseling to families and services to battered women for 1,495 households**; provided **fair housing information** and follow up **to 955 persons**; provided **after school tutoring and recreation to 330 low income youth**. The annual budget

for services in FY 2004-2005 was $209,193. For FY 2005-2006, the budget is $198,060.

Just one example of the way in which CDBG provides needed tools to the City: the City is currently working with one target neighborhood for improvement. Residents of Zapopan Park neighborhood approached the City with complaints regarding crime, transients and gang activity. The **City worked with residents to create the Zapopan Park target area**. Prior to the City's involvement, the area was characterized as being unsightly and the City's Sheriff's Department reported gang activity in the area. Residents reported being unable to use Zapopan Park due to activity in the area. Since the City's involvement and use of CDBG funds, the **Park has been reclaimed**, there is **new playground equipment and ADA accessible walkways**. There is a **new community center** with pre-school and **new senior housing** for extremely low income residents. Crime statistics have been improved. **Over 274 housing units now meet housing and building codes**. The City is currently working to **create the Rosemead Public Safety Substation in Zapopan Park** as part of its overall strategy for the area at a cost of $340,000.

Between July 1, 2000 and June 30, 2004, the City expended $4,589,983, not including public services, in CDBG funds to improve conditions and housing for the most needy of our residents. Of this amount, **100% of funds were used for low-to-moderate income persons** and, of this amount, **more than 80% of funds (not including services) went to neighborhoods south of Interstate 10, which are the neediest areas of our City.**

Our City strongly urges that Congress enact a FY 2007 budget and appropriations package that contains sufficient funding for this program and which retains CDBG as a separate and distinct program, funded at no less than $4.355 billion (the FY 2005 allocation level). Thank you for your attention to this matter.

Sincerely,

(electronic submission – original signed mailed)

Gary Taylor
Mayor

Los Angeles Housing Department
LAHD
1200 W. 7th Street, 9th Fl. Los Angeles, CA 90017
tel 213.808.8808 | fax 213.808.8616
www.lacity.org/lahd

Antonio R. Villaraigosa, Mayor
Mercedes Márquez, General Manager

April 10, 2006
Via Facsimile and Electronic Mail

The Honorable Maxine Waters
Member of Congress, 35th District
10024 South Broadway, Suite 1
Los Angeles, CA 90003

Attn: Michael Murase, District Director
Mike.murase@mail.house.gov

Re: Congressional Hearing regarding CDBG

Dear Representative Waters,

In response to your request for information on the City of Los Angeles Housing Department's programs funded with Community Development Block Grant (CDBG) funds:

1. *Main office location*

The Los Angeles Housing Department's (LAHD) main office is located at 1200 W. 7th Street, Los Angeles CA, 90012. We are just west of downtown Los Angeles, and are easily accessible by freeway and mass transit. Public counter services are available to the City's residents and businesses during normal business hours.

LAHD provides three types of housing programs with CDBG funding. These include:

A. Affordable Housing Construction and Rehabilitation
B. Homeownership Assistance
C. Housing Rehabilitation

A. Affordable Housing Construction and Rehabilitation

2. *Number of people employed under the program*

LAHD employs thirty-nine finance officers, construction specialists, administrative and clerical staff to provide services under our Major Projects division, which administers all our affordable housing development programs.

3. Specific services provided

The Affordable Housing Trust Fund (AHTF) provides a local source of funds to leverage with other public and private funds for development of new affordable housing.

CDBG and Home Investment Partnership Grant (HOME) are used for the development of new affordable housing and are leveraged with state tax credits and tax-exempt resources, state grants and local revenue sources. All funds are provided via competitive processes to qualified developers who must show they have other resources to leverage with the AHTF subsidies.

4. Program beneficiaries

The units to be developed represent future housing opportunities for large families as well as for seniors and persons with special needs. They must have annual incomes at or below 80% of median income adjusted for household size, as established by HUD, to benefit from new housing constructed or substantially rehabilitated with CDBG and the other resources in the Affordable Housing Trust Fund.

5. Service delivery

Several Notices of Funding Availability (NOFA) are issued each year by LAHD. Experienced affordable housing developers submit proposals to build housing throughout the city, which are thoroughly reviewed by LAHD staff. Recommendations are made to the Mayor and City Council for approval.

6. Project goals and objectives

In Program Year 2006-07, LAHD anticipates assisting the development of approximately 480 new units of affordable rental housing for large families and persons with special needs, using either CDBG or HOME program funds. Dramatic price increases of lumber, steel and insurance have forced the City to provide higher per-unit subsidy amounts compared to previous years, resulting in a lower total number of units financed, even as the City has expanded its commitment to its Affordable Housing Trust Fund.

Since the first NOFA in early 2003, LAHD has reviewed 126 rental housing developments under nine separate competitive funding rounds and has made commitments to 72 projects. Commitments now total $112.2 million as of October 2005, supporting 55 developments with 3,522 units of affordable housing.

B. Homeownership Assistance Programs

2. Number of people employed under the program

A total of eleven finance, administrative and clerical staff support all our homeownership programs. Moreover, a community-based agency chosen via a competitive process provides technical and construction services to the programs.

3. Specific services provided

- Low-Income First-time Homebuyer Purchase Assistance (PA): A deferred payment second mortgage loan of up to $90,000 to low-income buyers who need assistance in purchasing a home in the City of Los Angeles that is free of lead-based paint hazards and building code violations.

- Low-Income First-time Homebuyer Purchase Assistance with Rehabilitation (PAR): A deferred payment second mortgage loan of up to $115,000 to low-income buyers to purchase and rehabilitate a home, to address lead-based paint hazards, code violations and deferred maintenance.

- Asset Control Area (EHOP) Program: In cooperation with HUD and the Enterprise Foundation, this program helps rehabilitate HUD-foreclosed homes for sale to low-income first-time homebuyers. LAHD has set-aside funds to provide Purchase Assistance deferred loans of up to $90,000 for these homes.

4. Program beneficiaries

First time homebuyers, with annual incomes at or below 80% of median income adjusted for household size, as established by HUD, are eligible to benefit from CDBG or HOME-funded programs. Funds can be used to purchase single family homes, townhomes or condominiums.

All applicant borrowers are required to complete eight (8) hours of homebuyer education from one of LAHD's approved providers to obtain this type of loan. Because the current real estate market in Los Angeles is prohibitively high for low-income purchasers, even with the generous support offered by LAHD's programs, many are unable to find affordable homes to buy.

5. Service delivery

All of LAHD's homeownership programs are operated in partnership with City-approved lenders. Detailed information about the programs and the lenders is provided to the public at homebuyer fair, seminars, and on LAHD's website. The applications are taken by the participating lenders in a variety of offices throughout the City.

6. Project goals and objectives

In Program Year 2006-07, LAHD anticipates providing soft second mortgage assistance to nearly 60 first time low-income homebuyers in Los Angeles, using either CDBG or HOME program funds. Earlier in the decade, and in the 1990s, many more buyers could be assisted, but the price of for-sale housing in Los Angeles is now prohibitive. Approximately 700 first time homebuyer households have been provided soft-second mortgages by LAHD to achieve the American Dream

C. Housing Rehabilitation Programs

2. Number of people employed under the program

Nineteen finance officers, construction specialists, administrative and clerical staff operate the various rehabilitation programs described below. Moreover, community-based agencies chosen via a competitive process provides technical and construction services to the programs.

3. Specific services provided

- Handyworker: Free minor home repairs to low-income elderly or disabled homeowners or homeowners with disabled relatives residing with them. Emergency repairs that directly affect the health and safety of occupants can be provided to other income-eligible homeowners. Eligible repairs are limited to work that does not require a City building permit or formal inspection, up to a value of $5,000. This program is funded by CDBG.

- Home Secure: Similar to Handyworker but provides more limited assistance for accessibility, safety and security, such as bathtub grab bars and new door locks. This program is funded by CDBG.

- Comprehensive Single Family Rehabilitation Loan Program: Deferred payment loans with 3% interest rate for low-income, owner-occupied, single-family homeowners. Loans of up to $125,000 plus a grant of up to $10,000 for lead paint hazard removal and/or exterior improvements for eligible owners. Eligible improvements are focused on making plumbing, roofing, heating, electrical and other repairs that extend the life of the structure. This program is funded by CDBG and HOME dollars.

- 2-4 Unit "Mom & Pop" Rehab Loan Program: Deferred payment loans with 3% interest rate for small rental properties (2-4 units) in which a low-income owner also resides. Loans of up to $55,000 per unit, plus a grant of up to $10,000 per unit is available for lead paint hazard removal and/or exterior improvements. The goal of this program is to provide funds to low-income owner occupants, who are often elderly, to maintain and preserve their property, correct code violations, and make other habitability improvements. This program is funded by CDBG.

- Small Property Rental Rehabilitation Program: This program provides 3%, amortizing loans to owners of rental properties up to 28 units primarily occupied by low-income renters, correct code violations and make other habitability improvements. Loans of up to $35,000 per unit, plus a grant of up to $5,000 per unit for lead paint hazard removal and/or visible exterior improvements are also available. This program is funded by CDBG.

- Urgent Repair Program: Enables LAHD to arrange for emergency repairs of life-threatening code violations, to prevent displacement of residents, often low-income, who would have difficulty finding new homes. If an owner does not respond to a 72-hour notice to correct dangerous conditions, a contractor selected through a competitive process is authorized by LAHD to make the repairs. An invoice for the cost of the repairs is sent to the owner; if there is no response, it is then recorded as a lien against the property. This program is funded by CDBG.

4. Program beneficiaries

Low-income elderly or disabled homeowners, with annual incomes at or below 80% of median income adjusted for household size, as established by HUD, are eligible to benefit from CDBG or HOME-funded programs.

Low-income renters with annual incomes at or below 80% of median income adjusted for household size, as established by HUD, living in small properties benefit from the rehabilitation loan programs and the Urgent Repair Program, as do the owners of the properties.

5. Service delivery

LAHD staff, and contract agencies (both non-profit and for-profit firms) chosen via competitive processes, implement the various grant and loan programs. Detailed information about the programs is provided at public meetings and on LAHD's website. Applications can be taken at LAHD's six different regional and satellite offices located throughout the City. The Urgent Repair Program responds to dangerous conditions at specific buildings, throughout the City. All of these programs operate citywide.

6. Project goals and objectives

In Fiscal Year 2006-07, LAHD anticipates achieving the following objectives:

- Handyworker: providing services to 1,480 low-income elderly or disabled homeowners
- Home Secure: providing services to 2,000 low-income elderly homeowners
- Comprehensive Single Family Rehabilitation Loan Program: making loans to 80 low-income homeowners
- 2-4 Unit "Mom & Pop" Rehab Loan Program: making loans to repair 29 units
- Small Property Rental Rehabilitation Program: making loans to repair 80 units

The first three programs have been in operation for many years; the objectives for next year are based on prior year performance. The rental rehabilitation loan programs were newly established in late 2005 and thus do not yet have representative outcomes that can be reported.

Conclusion

As you can see, LAHD relies heavily on CDBG funds for our programs, which makes CDBG a critical source for addressing the housing crisis in our City. The CDBG administrative funds from HUD provide leverage for other, non-entitlement housing grant resources that may not provide adequate, or any, administrative funds. The Housing Department has received over $40 million from competitive grants in the past six years from HUD and the State of California. If CDBG administrative funds had not been available to supplement those competitive grant funds by paying for program, accounting and other administrative staff at LAHD, those grants would not have been received, because we could not show the funding agency our ability to implement the programs.

Similarly, because CDBG funds are used to supplement HOPWA administrative dollars, Housing Department staff is paid partially with CDBG. This frees up 7% of the 10% of HOPWA

administration dollars for HOPWA-funded contract agencies, some of which are small, grassroots, faith-based organizations.

The Consolidated Plan funds from HUD leverage many other public or private financial or in-kind resources. For example, Los Angeles' Affordable Housing Trust fund, which incorporates CDBG and HOME funds as well as other, local dollars, is currently generating approximately four additional dollars to every one Trust Fund dollar.

Thank you so much for your interest in and support of programs such as CDBG. If you have any questions, please contact me or Marlene Garza of my staff at 213-808-8479.

Yours sincerely,

FOR MERCEDES MÁRQUEZ
General Manager

LACDB Summary

Recognizing the need and opportunity for economic development in Los Angeles, the Clinton Administration, in coordination with the Mayor in Los Angeles, expanded its original Empowerment Zone and Enterprise Community Programs in 1995 to include a new Supplemental Empowerment Zone designation for a portion of Los Angeles, which was the impetus for the LACDB's creation. The LACDB's primary source of funds is a $435 million grant and loan package from HUD. The Bank began operations in mid-July 1996 as a non-profit 501(c)(3) corporation to provide greater access to capital for businesses that can positively impact the Empowerment Zone (EZ) and its residents.

The primary goal of the LACDB was economic development within 19 square miles of neglected, low-income communities, including Pacoima, Boyle Heights, the East Downtown Corridor, the historic Central Corridor, Central Avenue, the Slauson Industrial Corridor, the Broadway District, Watts, Firestone, and Willowbrook. These 19 square miles were designated as an Empowerment Zone.

The LACDB is not a commercial bank. While it held a Finance Lender's license under California law, it is a California public benefit corporation, and a certified a non-profit corporation. LACDB was designed to stimulate economic development within the Empowerment Zone by providing loans to new businesses that could not qualify for conventional loans.

The LACDB was created by the City, the County and The Department of Housing and Urban Development (HUD). The City and County obtained Economic Development Initiative (EDI) grants and loan guarantees from HUD. These economic development tools were then passed on to the LACDB, which was governed by a fifteen-member board of directors. Professional management ran the day-to-day activities of LACDB.

Through the City, LACDB obtained $79,000,000 in grant funds, and over $100,000,000 in loan guarantees. Because these funds were used to make loans to borrowers who could not qualify for conventional loans, a significant number of these loans failed. LACDB currently owes the City approximately $45,395,000.

On March 17, 2004, the Board of Directors authorized the dissolution and liquidation of the LACDB. Jeffrey Golden was appointed as Receiver, and on April 8, 2004, he filed a voluntary petition under Chapter 11 of the Bankruptcy Code.

1. How 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.

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 by LACDB 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 was 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 to be 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 specified 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, described 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.

More specifically, as documents concerning LACDB operations were being developed, the City was in communication with HUD, the federal funding entity, and was informed that "we understand the City's concern regarding its responsibilities; however, we also caution that every effort be made to assure that the independence of CDB 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 the 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 community-based Work Source Centers to facilitate program success.

3. 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 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 developed a transition plan that contained 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.

The Bank held two assets, a loan portfolio, and an investment in a venture capital fund. The loan portfolio was recently sold to a private investor (F.H. Partners L.P.) for $4,520,000. Part of these funds will be used to conclude the bankruptcy action, and to pay off the costs associated with dissolving the corporate entity in State Court. The remainder will then be paid to the City as the largest secured creditor. The investment in the venture capital fund was transferred to the City. LACDB invested $35,000,000 into this venture capital fund, and it currently is worth approximately $4,000,000.

The City's repayment to HUD is currently on an interest only basis, and the loan repayments have been sufficient to cover the amounts due to HUD. Principal will be due in the middle of next year.

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 the Trustee is still seeking recovery of 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.

Unobligated Funds

There remained over $198 million in Supplemental Section 108 loan guarantee authority allocated to LACDB. In 2004, the City 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; and,

- The full amount of remaining Section 108 loan authority (approximately $146 million, including the aforementioned $50 million) would be used in the geographic areas described in the original Section 108 application, but could be used for broader CDBG national objectives and eligible purposes (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).

The second action required an amendment to the original Section 108 application. The City proceeded with the $50 million reallocation as described above in order to move this matter forward in a timely manner, and then include this amount and the additional $148 million in the amendment. HUD required that the uses of funding be consistent with original Section 108 application or amended appropriately, and that the Los Angeles Empowerment Zone Strategic Plan application and the City Consolidated Plan be modified in order to reallocate these funds to the City of Los Angeles. HUD approved the reallocation to the City in 2005.

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 attached map 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;
- Adequate financial/compliance controls;
- Reliable private sector involvement; and,
- Strategic utilization of resources.

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.