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HUD OVERSIGHT: MISSION, MANAGEMENT, AND PERFORMANCE

HEARING

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

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HUD OVERSIGHT: MISSION, MANAGEMENT, AND PERFORMANCE

THURSDAY, FEBRUARY 27, 1997

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HUMAN RESOURCES,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 11:10 a.m., in room 2247, Rayburn House Office Building, Hon. Christopher Shays (chairman of the subcommittee) presiding.

Present: Representatives Shays, Snowbarger, Gilman, Pappas, Towns, Kucinich, and Allen.

Staff present: Lawrence J. Halloran, staff director and counsel; Christopher J. Allred, professional staff member; R. Jared Carpenter, clerk; Ronald Stroman, minority professional staff; and Ellen Rayner, minority chief clerk.

Mr. SHAYS. I would like to call this hearing to order and to welcome our guest, our witness, the Secretary of HUD, who has honored us by his presence. Our goal today is constructive oversight. Our goal is to continue the dialog that we had with Secretary Cisneros in his two appearances before this committee.

In the last Congress, this subcommittee examined HUD's takeover of the Chicago Housing Authority, waste in the public housing Tenant Opportunity Programs and the growing unsustainable cost of insured multi-family housing subsidy contract renewals. The question then and now is: can HUD overcome the internal and external obstacles to performing its missions? The internal challenges, acknowledged management weaknesses that have been a part of HUD as long as I have been a part of Congress and certainly are not attributed to any one individual, any one administration, or any one party, and the external challenges, the budget constraints that Congress imposes, as well as the White House, on the operations of HUD and the huge cost of past subsidy commitments on multi-family projects.

This subcommittee looks forward to hearing from Secretary Cuomo, to hearing Secretary Cuomo's plans for HUD to meet these challenges and commit continued constructive oversight to help the people of HUD meet its mission and do an even better job.

At this time, I would like to acknowledge and ask if my co-friend and co-worker in this effort, Mr. Towns, if he would like the floor.

[The prepared statement of Hon. Christopher Shays follows:]

DAN BURTON, INDIANA
CHAIRMAN

HENRY A. WAXMAN, CALIFORNIA
RANKING MINORITY MEMBER

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ONE HUNDRED FIFTH CONGRESS

Congress of the United States
House of Representatives

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Statement of Rep. Christopher Shays
February 27, 1997

Welcome Mr. Secretary. The Subcommittee appreciates your being here today to discuss your vision for the Department of Housing and Urban Development (HUD).

Your predecessor appeared twice before this Subcommittee. His personal involvement lead to an open and constructive role for the Department in our oversight of HUD programs. Your presence here today bespeaks your willingness to continue that frank, cooperative relationship.

In the last Congress, we examined the Department's takeover of the Chicago Housing Authority, waste in the public housing Tenant Opportunity Program (TOP) and the dimensions of the looming crisis in federally insured, subsidized multi-family housing. Each of those specific issues raised the more general question of HUD's capacity to meet its important mission in the face of significant challenges -- challenges from within the Department in terms of acknowledged management weaknesses, and challenges from without in terms of resource constraints and the burden of past commitments.

Those challenges remain. According to the General Accounting Office (GAO), HUD operations continue to pose a "high risk" of waste and mismanagement. HUD's previous plans to restructure the insured multi-family housing portfolio could have exposed the federal treasury to billions in losses while continuing subsidies to substandard apartments.

Mr. Secretary, we look forward to hearing your plans to overcome these challenges, and we commit our continued efforts to help HUD meet its mission as efficiently and effectively as possible.

Again, thank you for being here.

Mr. TOWNS. Thank you very much, Mr. Chairman, because the Secretary of HUD is a New Yorker. That is the reason I was here so early. I was delighted to see him.

Mr. Chairman, I am pleased to join you today in welcoming Secretary Cuomo to this subcommittee. I also want to commend my fellow New Yorker for his sterling record of public service, first, as an advocate for the homeless and then as HUD Assistant Secretary for Community Planning and Development, where he did a magnificent job.

Mr. Chairman, throughout his public career, Secretary Cuomo has demonstrated innovation, insight, leadership, and sensitivity to the community as well. I am confident that as HUD's Secretary he will bring the same level of achievement and dedication to the entire range of HUD programs.

Secretary Cuomo faces many difficult challenges at HUD. One of the most important will be what to do about the expiring Section 8 contracts. As the Secretary is well aware, 3 million Section 8 contracts supporting more than 6 million people will expire over the next 5 years. It will be necessary for Congress and the administration to work in a bipartisan fashion, and I stress bipartisan fashion, to make sure that HUD has sufficient budget authority to renew the expiring Section 8 contracts. Failure to renew those contracts would hasten the loss of affordable housing, devastate neighborhoods, and increase homelessness.

I am also concerned about certain provisions of H.R. 2 introduced by Congressman Lazio. The bill includes a section which would repeal income base rent in housing developments. Such a repeal would lead to rent increases for public housing tenants and further segregation of the poor. Public housing authorities might direct families choosing the pay income base rent to those properties where the authority would lose the least money, while those families who agree to pay flat rent would be steered to better properties. And that concerns me. It would be essential in any reform of such public housing that we keep income base rent capped at 30 percent.

Finally, Mr. Chairman, the General Accounting Office and the Inspector General at HUD have consistently discussed with us the continuing management problems at HUD. These are difficult problems which will require thoughtful solutions. I look forward to working on them with the Secretary, knowing that he has the ability to provide the kind of leadership that is really needed during these difficult days. I yield back.

[The prepared statement of Hon. Edolphus Towns follows:]

OPENING STATEMENT REP. EDOLPHUS TOWNS
RANKING MINORITY MEMBER
SUBCOMMITTEE ON HUMAN RESOURCES

Feburary 27, 1997

Mr. Chairman I am pleased to join you today in welcoming Secretary Cuomo to this subcommittee. I also want to commend my fellow New Yorker for his sterling record of public service, first as an advocate for the homeless and then as HUD Assistant Secretary for Community, Planning and Development. During his tenure as Assistant Secretary, Andrew Cuomo successfully presided over an annual budget of nearly $10 billion annually, which encompassed a wide ranging set of housing, community and economic development programs.

Mr. Chairman, throughout his public career, Secretary Cuomo has demonstrated innovation, insight, leadership and a tireless commitment to serve the less fortunate, and to rebuild urban America. I am confident that as HUD Secretary, he will bring this same level achievement and dedication to the entire range of HUD programs.

Secretary Cuomo faces many difficult challenges at HUD. One of the most important will be what to do about the expiring Section 8 contracts. As the Secretary is well aware, three million Section 8 contracts, supporting more than six million people will expire over the next 5 years. It will be necessary for Congress and the Administration to work in a bipartisan fashion to make sure that HUD has sufficient budget authority to renew the expiring Section 8 contracts. Failure to renew these Section 8 contracts would hasten the loss of affordable housing, devastate neighborhoods and increase homelessness.

I am also concerned about certain provisions of H.R. 2, introduced by Cong. Lazio. The bill includes a section which would repeal income based rent in public housing. Such a repeal would lead to rent increases for public housing tenants and further segregation of the poor. Public Housing Authorities might direct families choosing to pay income based rents to those properties where the Authority would lose the least money, while those families who agree to pay flat rents would be steered to the better properties. It will be essential in any reform of public housing that we keep income based rent capped at 30%.

Finally, Mr. Chairman as you know the General Accounting Office and the Inspector General at HUD have consistently discussed with us the continuing management problems at HUD. These are difficult problems, which will require thoughtful solutions. I look forward to working on them with Secretary Cuomo, and I look forward to his testimony.

Mr. SHAYS. I thank the gentleman. I agree with his statement.

At this time, I would like to invite the vice chairman of this subcommittee, Mr. Snowbarger, from Indiana, if he has a statement or comments.

Mr. SNOWBARGER. From Kansas, Mr. Chairman.

Mr. SHAYS. I am sorry.

Mr. SNOWBARGER. The note is incorrect and I noticed that.

I would like to welcome the Secretary and say to you that I am as new to this process as you are, but I hope you know more about this issue than I do. I am looking forward to your comments today, looking forward to establishing a long term relationship between you and this committee so that we can address the housing needs of those in the United States.

Thank you, Mr. Chairman.

Mr. SHAYS. Thank you. And I am sorry. Wrong State. [Laughter.]

Mr. SNOWBARGER. Oh.

Mr. SHAYS. Listen. It is a great State. He is the vice chairman.

Mr. Pappas, from New Jersey.

Mr. Gilman.

Mr. GILMAN. Thank you, Chairman Shays, and I thank you for the opportunity——

Mr. SHAYS. I need to comment. This is the first time we have had Mr. Gilman in this committee, so you have brought out the best.

Secretary CUOMO. Best in New York, anyway, Mr. Chairman.

Mr. GILMAN. I had to be here for a fellow New Yorker.

Mr. Chairman, I am pleased that we are holding today's hearing in light of GAO's citing of HUD as a high-risk agency, and I look forward to hearing from our newly appointed HUD Secretary, Andrew Cuomo, who I want to personally congratulate.

Secretary CUOMO. Thank you.

Mr. GILMAN. And wish him well in his new endeavors. We want to know how he plans to address GAO's concerns. As the agency responsible for our Nation's housing and community development programs, it is imperative that HUD identify the problems that it currently faces and develop a plan to seriously address those issues. I am certain our new Secretary has some ideas of his own. The mission of providing adequate housing for low-income families in our communities is extremely important and one that should not be jeopardized by any mismanagement. I have, throughout my tenure in Congress, fought hard for affordable housing programs for low- and middle-income Americans. In fact, during the past two Congresses, I introduced legislation which was approved by the House and later stalled in the Senate to remove Rockland County's median income level from the New York Primary Metropolitan Statistical Area, the PMSA, and we look forward to working with you on that problem.

Currently, as you know, this New York Statistical Area includes all of New York City and grossly misrepresents adjoining counties median income. In fact, currently, Rockland County's median income for a family of four is reported by HUD as $40,500 when, actually, the median income level should be $60,479 as reported in the 1990 census, a difference of some $20,000. Accordingly, many hard working families who cannot afford a piece of the American dream are considered by HUD to be making more than is necessary

to purchase a home and, therefore, are not eligible for affordable housing assistance. By removing Rockland County from the current PMSA, these families will be eligible for Federal and State affordable housing programs, something that many of us would like to see come about. So I look forward to working with Secretary Cuomo and with this committee in resolving problems such as the one I mentioned. I am confident that by working together with the Congress, HUD can once again successfully provide the kind of needed housing in our communities. And I want to thank Chairman Shays for holding this meeting once again. Thank you.

[The prepared statement of Hon. Benjamin Gilman follows:]

Statement
Oversight of HUD, Mission, Management, & Performance
February 27, 1997

THANK YOU MR. CHAIRMAN...

I AM PLEASED THAT WE ARE HOLDING TODAY'S HEARING IN LIGHT OF GAO'S CITING OF HUD AS A 'HIGH-RISK" AGENCY, AND I LOOK FORWARD TO HEARING FORM NEWLY APPOINTED HUD SECRETARY, ANDREW CUOMO, TO LEARN HOW HE PLANS TO ADDRESS GAO'S CONCERNS.

AS THE AGENCY RESPONSIBLE FOR OUR NATION'S HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS IT IS IMPERATIVE THAT HUD IDENTIFY THE PROBLEMS IT CURRENT FACES AND DEVELOP A PLAN TO

SERIOUSLY ADDRESS THESE ISSUES.

THE MISSION OF PROVIDING ADEQUATE HOUSING FOR LOW-INCOME FAMILIES IN OUR COMMUNITIES IS AN IMPORTANT ONE -- AND ONE THAT SHOULD NOT BE JEOPARDIZED BY MISMANAGEMENT.

I HAVE THROUGHOUT MY TENURE IN CONGRESS FOUGHT HARD FOR AFFORDABLE HOUSING PROGRAMS FOR LOW- AND MIDDLE-INCOME AMERICANS.

IN FACT, DURING THE PAST TWO CONGRESSES I INTRODUCED LEGISLATION WHICH WAS APPROVED BY THE HOUSE AND LATER STALLED IN THE SENATE TO REMOVE ROCKLAND COUNTY'S MEDIUM INCOME LEVEL

FROM THE NY PRIMARY METROPOLITAN STATISTICAL AREA (PMSA).

CURRENTLY, THIS NY STATISTICAL AREA INCLUDES ALL OF NEW YORK CITY AND GROSSLY MISREPRESENTS ROCKLAND'S MEDIUM INCOME. IN FACT, CURRENTLY ROCKLAND'S MEDIUM INCOME FOR A FAMILY OF FOUR IS REPORTED BY HUD AS $40,500, WHEN THE TRUE MEDIUM INCOME LEVEL SHOULD BE $60,479, AS REPORTED IN THE 1990 CENSUS -- A DIFFERENCE OF $20,000.

ACCORDINGLY, MANY HARD WORKING FAMILIES WHO CAN NOT AFFORD A PIECE OF THE "AMERICAN DREAM" ARE CONSIDERED BY HUD TO BE MAKING MORE THAN IS NECESSARY TO PURCHASE A HOME AND, THUS,

ARE NOT ELIGIBLE FOR AFFORDABLE HOUSING ASSISTANCE.

BY REMOVING ROCKLAND FROM THE CURRENT PMSA THESE FAMILIES WILL BE ELIGIBLE FOR FEDERAL AND STATE AFFORDABLE HOUSING PROGRAMS.

I LOOK FORWARD TO WORKING WITH SECRETARY CUOMO IN RESOLVING PROBLEMS SUCH AS THE ONE I MENTIONED, AND I AM CONFIDENT THAT BY WORKING TOGETHER WITH CONGRESS HUD CAN ONCE AGAIN SUCCESSFULLY PROVIDE NEEDED HOUSING IN OUR COMMUNITIES.

Mr. SHAYS. Mr. Gilman, it is really terrific to have you here because you are extraordinarily busy and you have pointed out, again, to the new Members that no Member is too senior to plug for a local project. [Laughter.]

Mr. GILMAN. Especially housing.

Mr. SHAYS. At this time, I would like to call the gentleman from Ohio, Mr. Kucinich.

Mr. KUCINICH. Thank you very much, Mr. Chairman, members of the committee, Mr. Secretary. As a former councilman and clerk of courts and mayor of the city of Cleveland, I have had opportunities to be very much involved with HUD policies over the years and I am glad to see that the Secretary is now in a position where he can work with Congress to help construct an urban policy. Because I think one of the things that we have really lacked over the last few decades without in any way diminishing the contributions that have been made by past Secretaries is a coherent urban policy which addresses not only the housing needs of our various communities, but also the question of urban development and the choices which we should make to encourage urban development and to make sure that we have sustainable development as well.

So your participation as the Secretary of HUD and your vision is going to be needed to help make the promise of HUD and the potential of HUD become a reality. I think every Member of this Congress is well familiar with the litany of problems which have been the result of administrative challenges that have not been met in HUD over the years; but you have a new opportunity and with it comes a chance to help revive the fortunes of America's cities. So I look forward to working with the chairman and with you and the members of this committee in helping to move this country forward on issues that relate to housing and urban development. Thank you.

Secretary CUOMO. Thank you, sir.

Mr. SHAYS. I thank the gentleman. I would like to get some housekeeping out of the way and ask unanimous consent that all members of the subcommittee be permitted to place an opening statement in the record and that the record remain open for 3 days for that purpose. Without objection, so ordered.

[The prepared statement of Hon. Michael Pappas follows:]

Statement by Congressman Michael Pappas
Before the Government Reform and Oversight Subcommittee on Human Resources
Hearing on "HUD Oversight: Mission, Management and Performance"
Thursday, February 27, 1997

Mr. Chairman, one of the primary functions of Congress is to oversee the performance of the agencies it helped to create. The Congress must take a common sense, business minded approach when evaluating each agency's performance in terms of its original mission. This essential function and duty is critical to improving our government and providing accountability to the American people. That being said, I commend the Chairman of this subcommittee for taking a active and hands-on approach toward accomplishing this goal by calling this hearing.

It is my hope that we can shed light on many of the pressing problems at the Department of Housing and Urban Development and, in particular, how Secretary Cuomo plans to address those problems. Furthermore, it is my hope that a thorough discussion of specific strategies that HUD intends to use will enable the agency to have its name removed from the GAO "high risk list."

Again, I commend the subcommittee for its inquiry and I look forward to working with my colleagues and HUD to ensure the taxpayer's money is spent wisely.

Michael Pappas

Mr. SHAYS. I also ask unanimous consent that our witnesses be permitted to include their written statements in the record. Without objection, so ordered.

Mr. Secretary, before calling on you, I would like to just introduce some of the staff members in our committee who will be working with your people. We have on the minority side, Chanda Tuck, right here and then we also have Ron Stroman, who works for the full committee. And my chief counsel in this committee, Larry Halloran, and also Chris Allred in the back right here, who handles all housing issues.

And as you know, we swear in all our witnesses, including Members of Congress, so I would just ask if you would stand now and I will swear you in.

[Witness sworn.]

Mr. SHAYS. Thank you very much. Mr. Secretary, we are delighted to have you here and you can summarize your statement, just make whatever comments you want, and then we will get in with the questioning.

STATEMENT OF ANDREW CUOMO, SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, ACCOMPANIED BY PAUL LEONARD, ASSISTANT SECRETARY FOR POLICY DEVELOPMENT & RESEARCH; STEPHANIE SMITH, DEPUTY ASSISTANT SECRETARY, HOUSING; AND MICHAEL STEGMAN, ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH

Secretary CUOMO. I will not take a lot of the committee's time with an opening statement, because I think in your opening remarks you touched on the issues that, basically, we are here to discuss.

If I might, Mr. Chairman, please allow me to introduce some of the people who are here from HUD just so we can put some faces with the names.

Mr. SHAYS. Terrific.

Secretary CUOMO. We have Mike Stegman, who is the Acting Chief of Staff of the Department.

Mike, if you could just signal.

Mr. SHAYS. Yes, he has acknowledged himself. He has raised his hand. We can see him here.

Secretary CUOMO. And Paul Leonard, who is the Deputy Assistant Secretary for Policy Development and Research; Hal DeCell, who is the Assistant Secretary for Congressional Affairs; Cheryl Fox, who is a special assistant to me, works on all the issue briefings; Stephanie Smith, who is the Deputy Assistant Secretary for Housing, which is an important area handling Section 8 issues, among others; Mark Gordon, who is a senior advisor to the Secretary and Jon Sheiner, who is a Deputy Assistant Secretary for Legislation.

I think, gentlemen, that I take over HUD at a very interesting time in this country, many things going very, very well. President Clinton, working with Congress, has certainly amassed an impressive record, putting the country in the right direction. But that is not to say that we do not have a lot to do. The President is the first to say there is still a lot that needs to be done. In his State

of the Union Address, there are very few of us who can go back to our homes or our districts and not see the challenges that face us in cities like Bridgeport and areas like Brooklyn right across the country. There are still real problems that have to be addressed, and that is where HUD comes in and HUD's mission as we see it.

One of the questions posed to me was what are the main obstacles facing HUD. And I think they were mentioned in your remarks, but I would say there were two. First and foremost, in my opinion, is what we referred to as the Section 8 crisis, which is not a glamorous topic. It is not an overly appealing topic. It is a technical topic, but it has a potentially devastating impact on the Department and housing, in general.

The second issue, as again you mentioned, is the overall management problems at HUD. And it is something that we are also making a top priority.

If I could refer you to the charts on your left, just to talk quickly about this Section 8 problem. The Section 8 crisis, as we refer to it, is the expiration of contracts that are coming due. These are contracts that were signed 30 years ago, 20 years ago, or as recently as 1 year ago. And these contracts are now coming up for renewal. They are expiring. The question is, what do we do once they come up for renewal. Very, very big numbers: 1.8 million units; 4.4 million Americans; 6 million Americans by about 2002.

You look at the impact which is all across the country where these Section 8 units are coming up where they are expiring, New York City, 111,000; Bridgeport, 3,300; Cleveland, 21,000; San Francisco, 16,000; Indianapolis, 15,000. All big numbers across the country. And again, the universe is as high as 6 million people 2000, 2002. You cannot just afford to allow the contracts to expire and lose the units to the inventory. The numbers are big on the people who inhabit the units. They are also big on the cost of renewals. The cost to renew the contracts that are coming due, it is just about $10 billion, a little less, about $10 billion. How much is $10 billion? It is about half of HUD's entire budget this year, just from the cost of renewal.

Now, this is a problem that we have talked about for a long time, but, as it is thorny, no one has really wanted to grapple with it. So the numbers and the impact are devastating. What would happen to the people who are displaced if we allowed ourselves to lose these units? I do not think it is overly dramatic to say you could have massive homelessness in the Nation, which then triggers another problem as this committee knows.

So the first question we pose to the committee is, renew or not renew. That is the question, to paraphrase. The second question is, if you choose to renew, if you say we cannot lose these units, we cannot have 4 million Americans homeless, we have to renew the contracts, the question becomes, where does the funding come from to renew the contracts?

This year, the 1998 budget which we are here to discuss, requires $5.6 billion in new budget authority to renew the contracts. Where do you get the $5.6 billion?

One theory would say, we will take it from the existing HUD budget. "If you want to renew the contracts, HUD, God bless you. Take it from your budget."

To take $5.6 billion out of the HUD budget, you would basically have to cut everything else 35 percent across the board—public housing moneys would have to be cut $1.9 billion; the CDBG program, total program $4.6 billion, one of the strongest HUD programs, would have to be cut $1.6 billion. The HOME program which is a model of a block grant affordable housing program would have to be cut by $549 million. The homeless assistance would have to be cut by $288. Housing for people with AIDS would have to be cut $71 million.

In our opinion, if you tried to take the $5.6, the $5.6 billion necessary to renew the contracts, if you tried to take that from the rest of the HUD budget, it would be a cut-and-shift-the-burden strategy which would be counter productive. It is robbing Peter to pay Paul. You would be trying to help communities on one hand and hurting them with the other. These, 35 percent of the HUD budget being cut, would have a truly disastrous impact on the communities that have been working long and hard to come back.

What is our solution to the problem? Twofold. First, we say, the $5.6 billion in new budget authority should not be taken from the HUD budget, but should be additional BA added to the HUD budget. The President's budget for 1998 does that. The HUD budget goes up 30 percent. The 30 percent increase is just to take care of this renewal crisis.

At the same time, we say it is not enough just to say new money to cover it, how can we reduce the cost of these contracts and the Section 8 program overall? So we have also come up with $2.4 billion in savings. So that our solution, the way we propose we address this crisis is twofold: $5.6 billion in new budget authority and $2.4 billion in savings from reforms.

What is in that $2.4 billion? There are a number of savings, the most notable of which is what we call the "Mark-to-Market" proposal, the so-called portfolio re-engineering proposal which would save about half of that $2.4, about $1.2 billion. It is a proposal we have discussed for a couple of years. And what that says is this. Of the expiring Section 8's there is a segment of that portfolio which the FHA has insured and we subsidize with Section 8 certificates and vouchers. The cost on some of those units are currently in excess of the fair market rents. In other words, the taxpayers subsidize apartment rents subsidies to the tune of 150, 160, sometimes 200 percent of fair market rent to landlords. So the American taxpayer pays twice what the same unit could be worth just down the block. We think that is unconscionable. We think it is intolerable. Something has to be done about it. We say, "Mark-to-Market," which would say, "Reduce the FHA mortgage on the property which would then allow you to reduce the Section 8 rents which that project requires to be liquid down to fair market rent." Reduce that 200 percent, 160 percent, get it down in keeping with what you have to pay. That, in a nutshell, is the Mark-to-Market proposal. You have to go project by project, reduce the FHA mortgage and now you can reduce the Section 8 rent. We need legislative authority to do it, but it would bring us a very large savings, $1.2 billion, which would help us solve the overall problem. More importantly, I think, as a matter of fairness, as a matter of equity in these times where we are all very concerned about balanced budg-

ets and fiscal austerity and government departments are downsizing and working very hard to be efficient and intelligent about it, you cannot justify paying a private landlord twice what the going rent is for an apartment in light of everything else that is going on and how precious these resources really are. That is the Section 8 crisis. This year, 4.4 million Americans are affected.

The second challenge to HUD is, as you said, the overall management reforms and I see the lights are going off. Let me sum up——

Mr. SHAYS. Do not worry about the lights. That is not a problem.

Secretary CUOMO. OK. On the management reform side, as the committee has pointed out, these are problems that have plagued HUD for a long time. The GAO gives HUD the unique distinction of being the only department that is, "a high risk" department. Some of the reasons for that are historical. The high risk designation is, in part, because of the so-called HUD scandals in the 1980's and that is one of the things that got us that designation and one of the things that continues to give us that designation. But there is no doubt that as HUD has made progress and Secretary Henry Cisneros did amazing things on the management side as GAO will point out, there is still a long way to go on the management side. That is going to be a top, top priority for me. The two priorities for my tenure at this point will be the Section 8 crisis and improving the management of HUD, earning the public trust, right across the board, from both clients—be they private landlords, be they public housing authorities, be they the residents of public housing, demanding more responsibility, "one-strike-and-you're-out" policies on criminal behavior and drug behavior. Demand responsibility from our clients, also demand responsibility and managerial efficiency and intelligence from ourselves. Begin cleaning up by cleaning up your own house and that is what we want to do at HUD. We have already made strides in that area in just the first few weeks. We have mapped out a plan we think that will show real management change in about 18 months, and we are going to pursue that aggressively. So the reforms on the management side at HUD, I share this committee's concern. I know they are long standing. I know we have made progress, but I know that we have a long way to go.

Before I was Secretary, I was Assistant Secretary in Community Planning and Development. During those 4 years, the CPD, as they call it, staff was reduced by 25 percent and at the same time, we actually administered more resources. Literally did more with less, consolidated applications, consolidated reports. We even won an award from Harvard for the consolidation efforts that we did. So that doing more with less, the consolidation, streamlining, getting the funding, getting the authority back to communities that we did at CPD for the past 4 years, is what we are looking forward to continuing doing with the entire department.

I also know from my past 4 years as Assistant Secretary that nothing happens unless it happens together. That as hard as we work at the Department, unless we are doing it in partnership with Congress, we will not be successful. And in that mode, I come to this committee and I say I am looking forward to a productive rela-

tionship, a close relationship, a synergistic relationship that helps us both do what we want to do. And I think we can and I am looking forward to the opportunity and I am looking forward to beginning today. Thank you.

[The prepared statement of Secretary Cuomo follows:]

TESTIMONY BEFORE THE HOUSE COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT SUBCOMMITTEE ON HUMAN RESOURCES AND INTERGOVERNMENTAL AFFAIRS

WASHINGTON, DC
FEBRUARY 27, 1997

BY
SECRETARY ANDREW CUOMO

Chairman Shays, Ranking Member Towns, and Members of the Subcommittee, thank you for inviting me here this morning.

I appreciate the opportunity to discuss HUD's reform efforts and plans for the future and I look forward to building a productive, bipartisan working relationship with you and the members of your committee over the next four years.

Before I begin, I'd like to take a moment to salute my predecessor, Secretary Henry Cisneros, for his compassion, vision, and commitment to HUD. It was a personal honor to work with him over the last four years. Today, HUD is a stronger, abler, more cohesive Department because of Henry's leadership. He is, in my opinion, the best Secretary in the history of the Department.

The past four years have proved that when we work together we can produce real results for America. Today, because of all of our efforts, the economy is strong; jobs are up; and homeownership is up. At the same time, crime is down; unemployment is down; and so is poverty. President Clinton has America pointed in the right direction.

Yet, as the President reminded us during his State of the Union address a few weeks ago, serious challenges remain. One out of five American children still lives in poverty. Over five million families spend over 50 percent of their income on rent. Many in our middle class play by the rules and work hard every day, but they have not gained a fair share of the American Dream.

These challenges come at a time when the Federal government has fewer and fewer resources. If we had to make a choice between fiscal prudence and meeting the obvious needs of troubled Americans, the choice would be difficult -- indeed.

But in truth, we have no choice because we have an undeniable responsibility to balance the budget and, at the same time, we have an equally undeniable responsibility to meet the challenges that lie ahead -- increasing homeownership for all Americans, promoting fair housing, reducing homelessness, fostering economic growth and good jobs. We have to do both.

How can we do that, how can we meet our social and fiscal obligations? With a government that is smarter and smaller -- and a Department that is more sharply focused and better managed. HUD's proposed budget for fiscal year 1998 recognizes this need to meet both our fiscal responsibilities and social needs as we begin to address the challenges we must face in the next four years. I'd like to briefly outline our budget proposal, using it to focus our attention on some of the major reform issues we must resolve in the coming years.

The 1998 HUD budget focuses on four core challenges:

First, we must act now to avert the Section 8 crisis, which has severe budgetary and human implications;

Second, we must increase our efforts to expand housing opportunities for all Americans in urban, suburban and rural areas;

Third, we must wisely use the full array of HUD resources to make welfare reform work; and

Fourth, we must restore the public's trust in the Department by intensifying our management and program reform efforts.

I think anyone familiar with HUD would agree that our first and most urgent challenge is to avert a Section 8 crisis.

As this Committee knows, a record number of Section 8 contracts are beginning to expire, with 1.8 million expiring in FY 1998. That's more contracts than have expired in the previous five years combined.

In 1998 alone, failure to renew these expiring Section 8 contracts we would put millions of Americans at risk of losing their homes -- either through evictions or unbearably sharp rent increases. Over 90 percent of these Americans are elderly, persons with disabilities, or families with children. Many of those families have someone who works -- full or part time.

If we choose to renew these contracts -- which I believe we must for both policy and budgetary reasons -- we must do so by working together in a bi-partisan way that protects our communities and creates reforms to ensure future savings. This approach calls for a three-prong, common sense test:

First, our solution must be comprehensive, ensuring that none of the millions of people currently served is made homeless. If we do not renew these Section 8 contracts, what will happen? 4.4 million people could risk homelessness. That means in Bridgeport, Connecticut over 3000 people will be at risk, and in New York City more than 110,000 could become homeless. The American people should not have to bear the high social costs, and should not have to face the potential social chaos, of an unprecedented explosion of homelessness that would surely arise if we did not fully renew these contracts. None of us would advocate a policy guaranteed to push hundreds of thousands of elderly, children and disabled Americans into homeless shelters and onto the streets and grates of our communities.

Second, our solution must be community-friendly. The answer cannot be to divert funding away from other vital programs. To do so, would directly or indirectly undercut the needs of America's communities, many of whom are working hard to generate new jobs for welfare recipients, control homelessness and create more affordable and safe housing. A weakening of the social and economic fabric of our communities would surely be the result if we choose to fund the expiring Section 8 contracts by making draconian cuts in other HUD programs like CDBG, public housing operating support, homeless assistance and many others. A 35% across the board cut in programs, which is what it could take to fund the Section 8 contract renewals out of HUD's budget, could translate into $1.61 billion in CDBG cuts, a loss of $1.9 billion in public housing operating and capital assistance and a decline of more than $900 million in homelessness program funding.

I believe this kind of "cut-and-shift" approach -- robbing Peter to pay Paul -- would be short-sighted and self-defeating. While such an approach would avert the Section 8 crisis, we would simultaneously be triggering other community crises: in homelessness and affordable housing -- as states, counties and cities small and large would face billions in cuts in 1998 alone. For example, a 35% across the board cut of HUD's budget could translate into Bridgeport, Connecticut suffering a $6.6 million loss in HUD program funding, while New York City could confront a $416 million loss.

Third, our solution must contain tough savings reforms. Specifically, in the budget, we ask for $5.6 billion in new budget authority to renew the expiring Section 8 contracts, and propose program reforms that would save $2.4 billion in outlays in FY 1998 and $15 billion in outlays over the next five years.

Our FY 1998 budget proposal passes this three-pronged test--offering a comprehensive <u>and</u> community-friendly solution to avert a Section 8 crisis. Under our proposal, none of the 4.4 million at-risk Americans would go homeless and none of America's communities -- none of **our** communities -- would face unbearable and punitive cuts in other critical HUD programs -- all within the constraints of the President's five year glide path to balancing the budget. In particular, our approach stresses tough savings reforms.

Our proposed saving reforms would:

Increase the number of working families to fill vacant units.

Limit the annual rent increases for project-based units.

Maintain $25 minimum rents in public and assisted housing.

Reduce administrative fees for public housing authorities.

And, most importantly, end excessive subsidies to landlords.

The problem of excessive subsidies to landlords is a special problem for Section 8 contracts that will expire on some 500,000 units over the next few years in apartment buildings that are insured by the Federal Housing Administration, or FHA. All of these units have rents well in excess of the market rents in their neighborhoods. We are determined to end excessive subsidies on these properties. But we must do so in a way that protects families, preserves affordable housing and does not lead to massive defaults and foreclosures that could cost FHA billions in insurance claims.

The Department's portfolio re-engineering proposal, what we call "Mark-to-Market," generates $1.25 billion in discretionary savings between FYs 1998 and 2002. It also generates five-year mandatory savings of $700 million, due largely to the proactive restructuring of FHA-insured debt. Without the partial write-down of project mortgages, thousands of owners would be forced to default on their loans, causing large losses to the FHA insurance fund.

I am confident that our Mark-to-Market approach is a good starting point for a constructive, bi-partisan dialogue with this Congress, that gets a comprehensive fix for this problem in place this year. It shows clearly that HUD is prepared to make the necessary reforms in order to control program costs while protecting families.

I would like to make very clear, however, for this Oversight Committee, that the need for the requested 30 percent increase in our budget is not the result of agency mismanagement but the inevitable consequence of bi-partisan actions taken over many years to renew and maintain Section 8 housing assistance for low-income Americans.

By squarely, honestly and in a bi-partisan manner facing this crisis now -- and making the tough decisions needed to control spending -- we can take critical steps to correct a historic problem and reform the way HUD does business.

The Section 8 program was **forged** in a bipartisan spirit and it must be **fixed** with that same bipartisan spirit. I look forward to working with this Committee and this Congress to pass a comprehensive and community-friendly solution.

Let me now briefly discuss some of the other highlights of our FY 1998 budget. While averting the Section 8 crisis is HUD's first priority, our second challenge is expanding affordable housing opportunities for those not currently served.

To do so, our 1998 budget:

- Asks for 50,000 additional Section 8 certificates, and targets them to help welfare recipients move to work;

- Moves to build on HUD's great success in expanding homeownership by continuing FHA reforms;

- Continues to transform public housing -- a move which will soon be furthered by a number of proposals we will be making as part of HUD's 1997 public housing legislative package; and

- Helps the homeless work toward self-sufficiency, continues HOME and ensures the active and balanced enforcement of our Fair Housing laws.

Our third major challenge is our newest one. We now have to respond to a new environment created by welfare reform because well over one million families receiving housing assistance from HUD are directly affected by welfare reform.

Housing is the foundation for many people, but jobs are the essential element needed to drive people and families forward to self-sufficiency. HUD's economic development activities can play a vital role in bringing opportunity to communities all over America where, today, there are simply not enough jobs.

Among several important items, our 1998 budget asks for:

- $100 million to fund a second round of Empowerment Zones and Enterprise Communities, which will encourage job creation in high-poverty areas where many welfare recipients live;

- Stable funding for Community Development Block Grants (CDBG) at $4.6 billion, $1.3 billion in Section 108 loan guarantee authority, $50 million for the Economic Development Initiative and $10 million for a Bridges-to-Work effort which begins to help bring inner-city welfare recipients to job-rich areas in the broader metropolitan region.

These resources will help welfare recipients sign up for the best social program that has ever been invented -- a job!

Success in meeting the first three challenges I described clearly depends on our track record in meeting the fourth challenge -- one that I know is critical to this Committee -- restoring the public's trust in HUD.

As I said earlier, government must find ways to be smaller and smarter. We must remain committed to worthwhile goals but not to failed means. We must be willing to admit that some programs don't work. We must recognize the right roles for government and the private sector.

I understand this in a very personal way. I entered housing -- not as a government official -- but as a builder, operator and manager, responsible for meeting a payroll and balancing a budget. I learned that the object of our efforts must be the development of self-sufficiency and the protection of the public trust -- not the perpetuation of government programs. I have, by resume and temperament, zero tolerance for waste and abuse.

These experiences and values will help guide me as I seek to fulfill HUD's mission in an era of reform and reinvention.

In this budget, to help ensure that our partners at the local level are spending HUD funds wisely, honestly and efficiently, we propose further steps:

-- to crack down on bad and irresponsible landlords;
-- to clean up troubled public housing authorities; and
-- to intensify existing efforts to clear crime, drugs and gangs from public housing.

As this Committee has urged in the past, we at HUD must also work harder to clean up our own house. A few of the management reforms -- in addition to solving the Section 8 crisis -- that our FY 1998 budget proposes include:

- Targeting funds to show that "HUD Means Business" where the agency borrows -- for a limited time -- business executives and experts from leading companies to help us implement the financial and management reforms we must make;

- Continuing to downsize, down to 7,500 employees by the year 2000. With that comes a rethinking of the things we must do to manage efficiently with less staff; and

- Promoting greater efficiency by continuing to invest in the improved technology that is critical to the long-term restructuring of the agency's financial management systems.

I am proud to continue the task that Henry Cisneros began four years ago -- bringing this agency back from the brink of public disrepute by modernizing and preparing it for a new century. And I also recognize that while genuine progress has been made in the past four years -- progress acknowledged by a number of outside experts -- much remains to be done.

While I know we will discuss some of these issues in your questions, let me note a few of the areas that most concern me:

• HUD continues to be listed as a high-risk agency by the General Accounting Office. While the GAO acknowledges progress -- citing "substantial efforts over the past two years" -- they are right to say that a lot more must be done. In short, HUD's public purpose is too vital -- especially in this time of sweeping economic and social transformation as we move from an industrial to an information age -- to be compromised in any way by waste, fraud, abuse and poor management. We must go further.

• HUD continues to have problems with its financial control and management systems. While we've made improvements in the past few years, these changes are not sufficient if we are going to make sure this agency effectively and efficiently serves the Nation.

• While HUD is right on target for reducing the size of our staff -- from 13,200 in 1992 to 10,400 today and ultimately down to 7,500 in 2000 -- we must, in the next few years, bring our long-term mission in line with our reduced and dwindling resources.

As I pledged in my confirmation testimony in the Senate, management reform will be a top priority for me. It is perhaps a thankless task, but I believe the moment is ripe, as the most recent GAO report makes clear, for a close collaboration between HUD and Congress to clean up the agency for the long-run.

As I also told the Senate, my track record in HUD's Office of Community Planning and Development reflects my commitment to management reform -- a commitment and focus I will bring as HUD Secretary. Over the past four years at HUD, my office's personnel was reduced by about 25 percent -- while program responsibility nearly doubled. How did we do it? By streamlining, decentralizing, and consolidating.

For example, we devised a "Consolidated Plan" that condensed applications for 12 separate community development programs into a single application and plan. We developed software called Community Connections that allows us to use computerized maps to see -- down to the block level -- where HUD spends its money. With these maps, community leaders, planners and citizens can see at a glance how their approaches to different problems fit together.

These experiences are models for what we can do as we seek to reform the entire Department -- and I bring them with me to the office of the Secretary.

I look forward to building a positive, constructive relationship with this Committee and with the entire Congress to meet the housing and economic development challenges facing us as we head towards a new millennium. And I look forward to your questions.

Thank you.

America Faces A Choice:
Renew or Not to Renew?

Nationally

1.8 million units must be renewed in 1998
4.4 million people at risk of homelessness

Locally

• New York City	111,638 people at risk
• Bridgeport, Conn.	3,074 people at risk
• Cleveland	21,982 people at risk
• San Francisco	15,912 people at risk
• Indianapolis	15,784 people at risk

Renewal Must Protect America's Communities

Potential Harm in 1998

35% Cut Across-the-Board Nationally

$ 1.9 billion cut	Public Housing Operating and Capital Assistance [$5.4 billion]
$1.61 billion cut	CDBG [$4.6 billion]
$ 549 million cut	HOME [$1.3 billion]
$ 288 million cut	Homeless Assistance [$823 million]
$ 71 million cut	HOPWA [$204 million]

HUD Solution to the Renewal Crisis

Reform and New Spending

$2.4 billion	Reforms/Outlay Savings
$5.6 billion	New Budget Authority

Mark-to-Market

500,000 Units FHA-Insured and Section 8

- End Excessive Subsidies to Landlords
- Reduce Mortgage Debt
- Provide Tenants with Choice
- Extend Affordability
- Rehabilitate Apartments in Disrepair
- Save Taxpayers Money

Mr. SHAYS. Thank you, Mr. Secretary, that was very helpful. What we are going to do is I am going to recognize Mr. Towns first. We may have a vote and I may leave before they even call the vote or as soon as they call it, and then I will come back and be able to ask some questions. But I think what we will do is we will start with Mr. Towns.

We are going to keep the 5-minute rules, given that we have a number of Members, and then we are going to do another round where we might take 10 minutes per Member just so that we can have a first round. So Mr. Towns.

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

And let me begin by saying, Mr. Secretary, I am elated to have you to come before the committee, look forward to working with you. I know of the outstanding job that you have done up to this point. And the first question is the Genesis Project, which I took the budget chair—Mr. Kasich, who visited the district, and, when you take people to your district, you know, you want to show them the best. So I took him to the Genesis Project to show him in terms of what was going on there and how things could be done. This project, of course, is in my district and provides housing for 150 families, as well as a wide range of other services as you know, that are there to support these families, is a wonderful organization. And I wonder if you have any intentions of funding organizations like Genesis on a national level, because it seems to me that is a way that we will be able to provide adequate housing and at the same time, the housing will be protected. Because, as you know, during the old days—and I say "the old days," we would build something and they would tear it down and, of course, we would have to come back and build it all over again. But this is something that really works. So I would like to get your views on whether you plan to take this nationally?

Secretary CUOMO. Congressman, that is an interesting question and a helpful starting-off point. I think before I answer the question, just as a matter of full disclosure, I would ask who the management of the Genesis Project was and who did that project in your district?

Mr. TOWNS. Well, I must admit it was Secretary Andrew Cuomo.

Secretary CUOMO. Oh, well. [Laughter.]

Well, I think it is a great project. And I think it has a lot to do with the leadership of the organization. I was actually with Chairman Kasich the other day and he reminded me of that visit which was back, I guess, in like 1988 now. And he remembered the project. This is in Bedford-Stuyvesant, Schnediker and Hinsdale, in the Congressman's district, and he had a tour and Congressman Kasich had come out and I had led the tour and we discussed the concept at that time. The concept was unique. This was transitional, quote/unquote, housing at a time before we really knew about transitional housing. And it started to make the breakthrough that said, "Look. You have to do the housing as the foundation, as the starting point." Everybody needs the housing just to have the security, but then you have to build from there. And the housing alone is often not enough to help the individual and often not enough to help the community.

Comprehensive approaches, be they on the community development side or on the individual development side, specifically in a homeless-related context, often are the most appropriate path to follow. Genesis did that in Brooklyn. It has been open just about 10 years, now, actually, Congressman, since we first started that. And I am pleased to be able to say that in my opinion, and, again, I gave you the disclosure, but that it is working as well today as it did 10 years ago. And if you go to the people and the neighbors in the community, they will tell you that.

So that kind of approach that says comprehensive solutions, give people housing, but also give them the services and the tools they need to do for themselves and move on, Genesis is transitional. You do not come and live there forever. You come, you get the services, you get the help you need and then you move on to independence. Independence is the goal. Right? Independence is the goal of all these government programs. The goal of the government program is to end the reliance on the government program. The goal of the government program is to end the need for the program, to almost self-terminate. And that is what Genesis is doing. Not for profits. Comprehensive. In partnership with communities. I think that is the way to go.

Mr. TOWNS. Right. I will tell you, it is working. No question about it. In more ways than I think one would realize in terms of the service that it provides to the community, community meetings and being involved in community activities, and to see tenants suddenly recognize the importance of being involved in the community. I want to extend the invitation to the chairman. My good friend Mr. Kasich has already seen it, so I want to take the chairman there to see it because I am hoping that, as we get people to see it and they know what is going on, that we can buildup some support here. In fact, I may invite the entire committee after we take the chairman out. You know, that is how excited I am about it.

But let me just move along to one other question in terms of the legislation that has been put forth by Congressman Lazio, which is referred to as H.R. 2, the Housing Opportunity and Responsibility Act of 1997. The bill contains a provision to repeal the income-based renting public housing or what is really known as the Brook amendment.

This caused a tremendous uproar among public housing residents in the last term. Let me add that I opposed this provision. I want to go on record right now indicating that. How can we balance HUD's need to decrease its rental subsidies with the need to maintain affordable low and moderate income housing? How can we work out a balance?

Mr. SHAYS. If we could have a relatively, maybe a first pass at that answer, because the gentleman's time is up and I am going to really try to respect——

Mr. TOWNS. I want to respect—I will even withdraw the question.

Mr. SHAYS. Why do we not withdraw it now and then we will do it.

Mr. TOWNS. I will withdraw it.

Mr. SHAYS. And you will get to repeat it twice that you are against the bill.

Mr. TOWNS. I want to cooperate because I want to get you to Brooklyn. I withdraw it.

Mr. SHAYS. You can ask the question a second time and emphasize that you oppose the bill a second time.

Mr. Snowbarger.

Mr. SNOWBARGER. Well, if Mr. Towns would allow, I would be happy to have the question answered in my timeframe.

Mr. SHAYS. If it is a question you want to ask.

Mr. SNOWBARGER. Go ahead and answer the question, yes.

Mr. TOWNS. I would like to thank the gentleman. Thank you.

Mr. SHAYS. Let me try to be economical with the time.

Secretary CUOMO. I do not think there is a short answer, Congressman. I think before we look to get the shortfall from the tenant who can least afford it by raising their rent, we should look to, again, our own house. How can HUD do more with less? How can the local public housing authority do more with less? How can we get working families into that public housing who then can pay more because the 30 percent is a larger number because they are working and they have higher incomes. Use that mechanism to make up some of the short fall. But I think the last place to go is to a tenant who is barely making it and say, "You have to pay more than the 30 percent Brook guarantee."

Mr. SNOWBARGER. Let me followup on a couple of things you mentioned during your statements and in answer to the question first. Explain to me, you are dealing with a freshman here, why are we subsidizing up to 200 percent of these rents to landlords? How did that come about?

Secretary CUOMO. Congressman, first, you have to appreciate you are dealing with a freshman, also, but I had the same—I had the same question when I walked in.

Mr. SNOWBARGER. Like I said, I hope you have more answers than I have questions.

Secretary CUOMO. Yes. What happened on the Section 8 contracts, remember that many of these contracts were signed 30 years ago, 20 years ago, they came up with certain assumptions and one of the assumptions was we, government, will sign the contract 20 years ago and we will pay escalators, adjustments to the rent over a period of years. And we signed that 20 years ago.

As it worked out for many of these contracts, those escalators have now brought the subsidies to a point where they exceed the subsidies which are in the neighborhood fair market rents in the neighborhood. We have been contractually bound in many cases to be paying these.

The contracts expire. That is good news and bad news. The bad news is now we have 4 million people, 6 million people in 2002, that we have to figure out how to house. It is an expensive problem. That is the bad news. The good news is the contract expired, you can do something different. You are no longer bound to pay 200 percent. You are no longer bound to use the same buildings if you do not want to. You are no longer bound to say 100 percent of the people in this building, all poor people, 100 percent every unit. You do not have to do that. You can say, we are going to go to mixed income in buildings because that is smarter. You can say, now, we are going to use a Section 8 voucher, not just to pay a landlord's

mortgage, but to allow a person to go buy their own home with a Section 8 voucher. So the contract expired. You now can do all sorts of creative things. You can repair the mistakes that you made in that first contract signing, because you have learned a heck of a lot over 20 or 30 years.

And first and foremost, you do not have to pay 200 percent for a unit that you can rent in the marketplace down the block for half the price.

Mr. SNOWBARGER. Can you describe those escalators for me? Apparently, it was not done just based on a CPI or something of that nature. Was there a percentage increase guaranteed every year?

Secretary CUOMO. I have a team of people——

Mr. SNOWBARGER. The staff is looking at each other and they cannot figure it out. So I may be asking the wrong——

Secretary CUOMO. I can get you more specific information because, Congressman, we have a number of programs that were signed at different times all with slightly different deals at whatever time they were doing it. Remember, these contracts, some were signed in the Sixties, some in the Seventies, some in the Eighties. Some are very recent roll-overs. But interestingly, the past couple of years, we have been trying to get legislation to do something about this. When we do not get the legislation, and we have been unsuccessful, there has not been a housing authorization bill in 6 years, the result of doing nothing is continuing the status quo where even if the contract has been expired, we have been renewing them at the excessive rents, rolling them over, if you will, at the excessive rents because we have not come up with legislation that changes the course significantly. So to do nothing is to continue the status quo. But specifically, I can get you the actual terms of the contracts that were signed years ago that brought those rents up.

Mr. SNOWBARGER. Well, I understand there may be multiple ways of having done that. It would be helpful to me. Following up on your statement there, what is it about the legislation that is required or that was passed that required you to roll over the same terms?

Secretary CUOMO. Two things. First, before we can reduce the rent in many cases, we have to reduce the mortgage. In other words, we are both mortgage holder of many of these properties, FHA mortgage, and subsidizer and rent-payer. And the mortgage is matched to the rent. And we are paying out of both pockets. If you want to reduce the rent, you have to reduce the mortgage so you do not default on your own mortgage. We do not want to reduce the rent and then wind up with massive defaults on FHA mortgages. So we need legislation to do that. When we have not gotten the legislation, since nobody wanted to displace all the people who were in the units, Congress said, "Continue. Roll over. You can pay 160 percent of fair market rent." And that is what has happened for the past few years.

Mr. SNOWBARGER [presiding]. Thank you. I think my time has expired. Mr. Allen, do you have questions?

Mr. ALLEN. Yes, I do. I apologize for being late. And if some of my questions cover matters that you went into before, my apologies.

I was once the mayor of Portland. I was on the city council in Portland, ME, for 6 years. And my first question has to do with if you went through the city of Portland right now, looked at the public housing, it works, and it works very well. And I think the Section 8 program works pretty well. We have gone through some periods where we had to make sure that we were paying, what we were paying was more in line with market rents.

I know that your Department, of necessity, has to deal with some of the larger cities in this country, and I am just wondering, are there any issues that you foresee that will affect small cities and more rural areas differentially than the larger cities in this country that we ought to be aware of?

Secretary CUOMO. It is an interesting question, Congressman. I think two things. First, the Section 8 crisis is almost unique to HUD in that this problem affects almost all cities across the country. Different degrees, depending on the size of the city, because that is the number of units—larger cities probably have more units. But proportionately, it is still a devastating impact. New York City's number is 111,000 people on a larger universe, obviously. But Cleveland, 21,000; San Francisco, 15,000; and that is across the country. And that is one of the powerful problems of this crisis is the blanket effect across the country.

Having said that, public housing is interesting in a number of ways to me. It really has gotten a bad rap, public housing. People talk about public housing as if it was a failure. It is too often the way it is portrayed. Public housing, oh, that was a mistake. That was a problem.

It was not, really. Public housing is actually a great success story in this Nation and it is actually a testament to what government can do. Public housing works. Portland, public housing works; 95 percent of the time, public housing works. Public housing has been too often typified by some of the large developments in the large cities, Cabrini Greens in Chicago. That is not the face of public housing. It is smaller. It is less dense. It is more welcomed by the community, and it works.

What we want to do at HUD is change, as one of our management reforms, change our management depending on what the authority is and what its performance is. The smaller authorities that are performing well, God bless them, let them run the business, devolve authority to them. Deregulate to the extent you can. Not irresponsibly, but deregulate. Portland Housing Authority is working. Give them the funding and let them run it. Focus, instead, on the larger, more troubled public housing authorities.

Mr. ALLEN. Just by way of an example, we have married to our community policy effort to our public housing and we have been increasingly tough about people who have criminal records. They are now being moved out of the public housing. It has made a huge difference. We have got educational programs. They are all—they all seem to me to be moving along in the right direction.

One last question. The field operations for HUD in the State of Maine consist of two people in Bangor and one person in Portland. As you reduce the staff, you know, nationwide of HUD people, obviously, we would be concerned the field operations might take more

of a hit than the central, than the D.C. offices and I wondered if you could respond to that.

Secretary CUOMO. Two things, Congressman. First, between the headquarters and the field, I think your point—there is a lot of wisdom in your point. And if there is a disparate impact in the reductions, I think it should be disparate toward headquarters if anything, because we are trying to get more authority out to the field and we need people in the field to do that.

Having said that, 4 years ago, HUD was 13,000 people. In 4 years, I am pledged to reduce it to 7,500. That is almost a 50 percent reduction. So there are going to have to be fewer HUD people in a lot of places. At the same time, we want to make sure we have representation. And if it is only a couple of people now there, I would have to do it all within the context, but I would rather see a continued presence and a reduction in other areas that have more people. But I would not, if we can avoid it, I do not want to lose the presence entirely in an area.

Mr. ALLEN. Good. Thank you very much.

Secretary CUOMO. My pleasure.

Mr. SNOWBARGER. I apologize to the Secretary. We do have a vote that is taking place right now and I think we are going to take a brief recess. The chairman is expected back shortly. We will stand in recess.

[Recess.]

Mr. SHAYS. I would like to call this hearing back to order. What I would like to do, I was delinquent in doing this. The Secretary may want to call on one of his staff that is to answer a specific question. And so, what I am going to ask is any staff member that might respond to a question, not necessarily will, but might, if they would stand up and we will just take care of swearing you in and then it may be that none of you will have to respond to anything, but at least this way you have the flexibility. You can stay seated, Mr. Secretary, but if the others would stand and raise their right hand? And we will just make sure we identify who they are.

[Witnesses sworn.]

Mr. SHAYS. Thank you. Could you just each state your names?

Mr. STEGMAN. Michael Stegman.

Mr. SHAYS. And?

Mr. LEONARD. Paul Leonard.

Ms. SMITH. Stephanie Smith.

Mr. SHAYS. We will make sure you have cards for the recorder if there is responses.

Take them down for any reason? Are we all set to go? Do we have them anywhere?

Mr. Secretary, I can start. I can start and we can see if we can recapture them.

Secretary CUOMO. We will get them back up.

Mr. SHAYS. OK. It strikes me that, first off, I will say to you in this room we had the hearings, really, the Lantos hearings, and I was part of that committee that looked into Section 8 housing. And we knew of the tremendous abuse. One of the big abuses was that people would get the housing and they would get a tax credit. They would get financing and, in essence, what we found is they took all their money out up front. And then HUD had this incentive to con-

tinue with large subsidies in order to pay the mortgages that would, if they went bankrupt, HUD ended up with.

And if you could just kind of sort out for me this process? I know almost every community, particularly the large communities, have Section 8 housing that is running out. And so, you have that one issue. So one of my questions will be the mortgages run out at the same time question. The other issue is when we had hearing on Section 8 housing last time, we were really appalled with the condition of some of the housing and I can say that we have the same circumstance, say, in Monteray Village in Norwalk. It is not untypical, where we are actually paying higher than market rate as you have pointed out.

I am unclear as to how you sort this out: (1) Are the mortgages paid up by these individuals and, therefore, do we no longer have the at-risk of HUD taking over the facility with the guarantee? And (2) does this mean then that their cash needs are different because they do not have large mortgages? How do you sort all that out?

Secretary CUOMO. Mr. Chairman, if I can, I said when you were out of the room before, the expiration of the contracts is a good news/bad news scenario.

Mr. SHAYS. OK.

Secretary CUOMO. Bad news is we are in danger of losing units that would house about 6 million people by the year 2002, and the cost of renewal is very high.

Mr. SHAYS. Is very what?

Secretary CUOMO. Is very high at a time when there are not many resources. That is the $5.6 billion that is required in new budget authority plus $2.4 billion in savings. That is just the cost of renewal. The HUD budget goes up 30 percent this year just to cover the cost of renewal. We are not doing anything else. The rest of the HUD budget is basically flat besides the renewal——

Mr. SHAYS. Is that a one shot or is it continuous?

Secretary CUOMO. No. That is not a one shot. That is the problem. This wave of expirations, of contract expirations, starts to break in 1998, but it breaks in 1998, 1999, 2000, 2001, 2002 is the main impact. We want to get something done now so we can reduce the cost in the later years because the number gets higher as we go out, not lower. 1998 is significant because one of the largest increases is in 1998 from 1997. A jump from 1997 to 1998. But 1998 to 1999, 2000, 01, 02, it is also a very, very significant number, so we have to do something. That is the bad news is the impact on the numbers.

The good news is you can now literally rewrite housing policy for the first time in 30 years. The good news is the contracts are expired and you are no longer bound by the situations that you were bound by. You are no longer handcuffed. How many times did we walk through a community and we said, "Well, that's a Section 8 project. We can't do anything because we have a contract and it would foreclose or default and it would be a tremendous problem." The contracts expire. So I would say, now you have a chance to rewrite Federal housing policy, change the policy and start with a blank slate. Do you want to renew that building? Maybe the building is an asset to the community. Maybe it is not an asset to the

community. I would pose the question: Do you want to renew that building?

If you do want to renew the building, do you want to renew it at 100 percent subsidized units? Some people think that mixed income is a good idea, not 100 percent. If you want to renew the building, would you like to get in not-for-profit management, if it was a possibility. Would you like to offer tenant mobility? If the tenant chooses to leave the building, should the tenant have that choice? If the tenant chooses to leave and leaves with a Section 8 voucher, should the tenant be able to use that Section 8 voucher to buy their own home? Home ownership as opposed to rental. These are all questions that are triggered when you are freed from the contractual parameters.

Mr. SHAYS. But there are two contracts. Right? There is one that is a subsidy. The other is the mortgage.

Secretary CUOMO. No.

Mr. SHAYS. Do the mortgages end when the—is that what is happening? Have they paid off their mortgage?

Secretary CUOMO. No. No. Here is the caveat. When you go to—and, again, there are a lot of different flavors within this.

Mr. SHAYS. Some can pay back early? Correct? You have the 20 and the 40.

Secretary CUOMO. Yes. You have different situations. Some have the right to prepay at the end of 20 years, which is a different portfolio than the portfolio we are talking about here. This is basically we want to reduce the rent, the Section 8 subsidy, but you have to make sure that what you reduce the rent to can satisfy the mortgage. Because, as you have pointed out, you also, the Federal Government, hold the mortgage. You do not want to reduce the rent to a level that would see that mortgage default because now you have a lot of properties and a lot of foreclosures. So reduce the mortgage, write down the mortgage, mark it to market, reduce the mortgage as you are reducing the Section 8 rent. And you can reduce them both, but they both have to balance. In some cases, you may be able to expire the mortgage.

Mr. SHAYS. I have a sense that the mortgages are, in some cases, greater than the value of the property, except over time, part of the mortgage has been paid back. But even then, probably if they defaulted, you would lose—HUD, the government, would lose.

Let me just tell you what I am thinking of. I think of the Section 8 housing that is not properly maintained and then I see Section 8 housing that is very well maintained. It happens to be, say, in downtown Stanford, Four Acres. I know what that builder is going to do. It has already been sold a few times, but they are not selling it in my judgment so that they can renew Section 8 housing. They are either going to go right out into the marketplace which was, in one sense, the original design of this program, to create more housing and then privatize it. Or they are just going to tear it down because it is 4 acres in downtown Stanford and then you will have hundreds of people without housing.

So what I am trying to sort out, and I really do not yet have a clear picture of this, is the contracts are coming due, are ending for the subsidies. They're able to be bought out because this time has arrived. So the ones who will want to buy-out, it seems to me,

would be the ones that are in prime choice areas. And the ones that will want to continue are the ones that, frankly, took everything out of the project early on and are just going from month to month.

Secretary CUOMO. Yes. I am going to ask Mike or Stephanie to give you a sense of the numbers in two different portfolios, we call the preservation portfolio which are those units where the owner now has a right to prepay the FHA mortgage.

Mr. SHAYS. That is called preservation.

Secretary CUOMO. Preservation.

Mr. SHAYS. Do you need another chair?

Ms. SMITH. No. I'm fine.

Mr. SHAYS. OK.

Secretary CUOMO. And the other is the Mark-to-Market portfolio. And if Stephanie could also speak to——

Mr. SHAYS. I am sorry.

Secretary CUOMO. Stephanie Smith. Your issue is might there be units where the owner chooses to go to the market and not renew the expiring contract.

Mr. SHAYS. OK. And I am making an assumption that in many cases we still hold the mortgage insurance.

Ms. SMITH. Mr. Chairman?

Mr. SHAYS. Yes.

Ms. SMITH. The Secretary is referring to two distinct portfolios. There is one portfolio for which we have Section 8 contracts which are beginning to expire now and will continue to expire for the next decade. And those Section 8 contracts rent significantly above market, as he mentioned.

Mr. SHAYS. Yes.

Ms. SMITH. We also have FHA insurance on the mortgage. The structural flaw in the program is that the Section 8 contracts are for 20 years. The mortgage insurance is for 40 years. So in all those cases, the mortgage insurance usually runs for at least another 20 years, if not a little bit longer.

There are about half-a-million units which are expiring in the next 10 years where the Section 8 contracts are significantly above market and we have FHA insurance on the mortgage. The other distinct portfolio which you are raising is the preservation portfolio. In many cases, those Section 8 contracts are also expiring in the next few years, by the end of the decade, but those are the projects in which the owners have the right to prepay their mortgages. Congress restored that right to those owners last year. But if the owner prepays the mortgage, that does not mean that he is released from the Section 8 contract. He has prepaid his FHA-insured mortgage. There is a certain set of restrictions that he is released from on the mortgage side, but he still has the Section 8 contract.

If the owner decides to opt out of the Section 8 contract at the point of expiration, then he has to give the Department 1 year's notice prior to opting out of the program. We then provide the tenant at the expiration of that 1 year notice period with tenant-based vouchers and certificates, so they continue to receive assistance, but it may not be tied to that specific building.

So there are two very distinct portfolios that are being discussed here at the moment. That portfolio which is sort of preservation-eligible, there is about 350 or 400,000 units in that particular portfolio. Many of those units have Section 8 contracts with rents below market because of the way they were developed 20 years ago.

Mr. SHAYS. I am sorry to ask such ignorant questions, but I learn from my questions. Do I make an assumption that the face value of the mortgage has been brought down over 20 years so maybe then it actually is worth the market price? Or, do we still have problems that even after 20 years of paying down the mortgage, it is not a balloon mortgage? Right? It is a constant.

Ms. SMITH. It is not a balloon mortgage. It is an amortizing mortgage.

The best way I think to think about this, Mr. Chairman, is that these are two distinct portfolios of properties.

Mr. SHAYS. Right.

Ms. SMITH. For the portfolio that the Secretary mentioned with rents significantly above market, in many cases, the face value of the mortgage is greater than the actual value of the property.

Mr. SHAYS. And hence, why we pay more.

Ms. SMITH. Right.

Mr. SHAYS. OK.

Ms. SMITH. In the case of the portfolio that is prepayment eligible which is below market, in many cases, there is not a lot of debt remaining on those properties.

Mr. SHAYS. Yes.

Ms. SMITH. They were developed at a time where the mortgage amount was smaller, the amount of debt remaining on the property is significantly less. And in many cases, the value of the property is probably equivalent to the value of the mortgage.

Mr. SHAYS. In some cases, they did not mortgage to the top.

Ms. SMITH. These are sort of two distinct ways in which these portfolios——

Mr. SHAYS. It is hard for me to understand, though, how we are in a very good bargaining condition if we still hold the debt insurance and they are basically telling us to pay more than the market rate. I guess I do not really understand the Mark-to-Market. Are you suggesting that, basically, we are going to buy down the mortgage by just writing it off?

Secretary CUOMO. You would have to—your point——

Mr. SHAYS. Thank you very much.

Secretary CUOMO. Thank you, Stephanie.

The dilemma you see is the real one. You would have to, under this proposal, negotiate with that owner as to the bona fide expenses of operating the building, bona fide cost of operations, et cetera, and what mortgage payment that building could satisfy to keep it at the fair market rent and then you would have to reduce in some cases the actual mortgage, write down the mortgage and in those cases, there would be an expense to the FHA fund. Net, when you do all of this, you are reducing the Section 8, you are reducing the mortgages. Some are a cost in the reduction of the mortgage because you would literally have to write it off. Net, the cost is minimal. There are some scenarios where we can even figure out

making money with the right tax consequences. But there are scenarios where to reduce the rent you have to reduce the mortgage.

Mr. SHAYS. OK. And then that raises the question in my mind of whether or not, since we have given a benefit to the owner of these facilities who have already, frankly, made a lot of money off of these facilities, they would have continued obligations to keep them in the housing stream, in perpetuity. In other words, would there be a quid pro quo for that for writing down the debt?

Secretary CUOMO. That is one of the issues that is being discussed in proposals that are going forward and it depends in whose opinion. In my opinion, I would say, in the Department's opinion, I would say, yes. If we are going to reduce the rent, write down the mortgage, reduce the rents——

Mr. SHAYS. We pay either way.

Secretary CUOMO. We pay either way.

Mr. SHAYS. Except, we are up for renegotiations. So that is where we have some strength. If you wanted, you could basically close them down and then you have the facility. And I would think in some cases, if you did not have a willing negotiator on the other side, you just close him down, take over the property. You will look at those tradeoffs, I would gather.

Secretary CUOMO. And those would all be the tradeoffs on an individual basis. Again, Mr. Chairman, some buildings, you may not want to renew. Some buildings you may say, this did not work. It hurt the community. The people who live there do not want to stay there. So you may choose not to renew a building.

Mr. SHAYS. They have to feel you may be willing to not give them what they want in order to get what you want from them.

Secretary CUOMO. That's exactly right. And right now, HUD is in no negotiating position because if the owners do nothing, they are basically renewed at the current rent. As a matter of fact, by law, HUD is prevented from reducing the rent. So you have landlords who if nothing happens, if no legislation is passed, status quo serve them. They will be rolled over, they will be renewed as much as 160 percent of fair market rent.

Mr. SHAYS. I am going to get to Mr. Snowbarger in just a second, but let me just pursue this point. That means, clearly, that you would be looking to us to strengthen your bargaining position in Congress, to give you a little more flexibility, I would think.

Secretary CUOMO. That is exactly what we are looking for.

Mr. SHAYS. And so, that will be something that you will be deciding with, I guess particularly Mr. Lazio, and the Senate side, I do not know who that is. Who is the Senate side?

Secretary CUOMO. Mr. Mack. Senator Mack.

Mr. SHAYS. You will be working with them to figure out how to proceed on that issue.

Secretary CUOMO. Yes, sir.

Mr. SHAYS. Let me just ask this one last question related to it. Both GAO and the Inspector General's Office have questioned the ability of HUD to take on this massive project. This is going to take some very smart energetic people who know the marketplace and a whole host of different places. And you have alerted us so now we have to be part of the solution. And I am happy you have. The

question is what steps are you taking and will be taking so that you have a strong group within HUD that can take on this project.

Secretary CUOMO. Mr. Chairman, there are two sides to this issue. The first one we have discussed, the impact, what kind of legislative authority we need to actually do something about it. Second, as you accurately point out, if you have the fix, the legislative authority to do a fix, how do you now implement it? Eight thousand five hundred properties. How do you now implement it with 8,500 properties across the country?

One scenario would say, "Well, we are going to bring HUD—hire more people, increase the size of HUD and we will perform this task." That is not our recommendation.

We have a plan to downsize HUD. We want to stay on that downsizing track and our implementation vehicle for this would look to outside parties, outside third parties, be they housing finance agencies, be they subcontractors, but there is talent in the private marketplace that can do this very well. This is a very skilled expertise. These are people who have to be able to come to the table and negotiate and know the facts because they are against trained real estate developers on the other side. So our opinion is there is expertise in the marketplace. Let HUD contract for the expertise rather than trying to develop it in house.

Mr. SHAYS. I am struck by the fact that you really have almost a war-room type of situation where I would almost visualize someplace in HUD where you have got a gigantic map and time lines and so on, especially, if you are going to be farming out some of this, because this is going to be a massive undertaking.

Secretary CUOMO. It is a massive undertaking. In any scenario, it is a massive undertaking. It is massive even if you contract it out. It is massive just to coordinate it. But I think it is a far more doable task if you contract it out, get the best expertise you can get out there and then manage the process of contracting out.

Mr. SHAYS. Well, I have not spoken to Mr. Towns and the other members of the committee, I suspect that we are going to probably have a few hearings on this issue to weigh in with the authorizing committees to see how we could provide suggestions.

Mr. Snowbarger, has the gentleman from Ohio asked questions?

Mr. SNOWBARGER. He has not.

Mr. SHAYS. He has not. Do you mind if we——

Mr. SNOWBARGER. That would be fine.

Let me make just two real quick ones.

Mr. SHAYS. Yes.

Mr. SNOWBARGER. Two real quick ones, because they have to do with the questions.

Mr. SHAYS. You have the floor.

Mr. SNOWBARGER. Thank you, Mr. Chairman.

They have to do with the questions that were asked by the chairman: We are talking about 8,500 properties out there and we are trying to figure out what our leverage is. Do we have any analysis of those properties in terms of are they in—now, I have got to figure out how to ask the question right. Are they in markets where there are excessive units on the market? Are they in markets where housing is very tight? Obviously, if there are excessive units on the market, it seems to me we are in a pretty decent bargaining

position there. And then, how do those particular contracts relate to these 200 percent rental subsidies that we were talking about earlier? Do we have that kind of analysis that you have done already?

Secretary CUOMO. We can get you, Congressman, where the buildings are. We have a more thorough breakdown of the cities that you see on that chart. We have a breakdown by city of where they are across the country. And then we know where the markets are a little tight or a little soft. We also know the locations within cities and, obviously, sometimes the housing market changes within different parts of the city. So we have that data and we can get it to you.

Mr. SNOWBARGER. OK. And then, the last followup was on this management side of things. I want to congratulate on the job that you did in terms of downsizing with the Community Planning and Development and it sounds like that is a part of the process for all of the Department is a downsizing.

I guess I am curious as to where you see downsizing fitting in at a point in time when the tasks that you are called upon to accomplish, at least for a short term here, are massively increased.

Secretary CUOMO. That is the challenge, Congressman.

Mr. SNOWBARGER. But apparently, you see that it can be done. I mean, that is what you proposed.

Secretary CUOMO. Yes. Our plan is we were at 13,000. We are now at about 10,000. The plan is to go to 7,500. Our challenge is to not be driven by the number, but change the management plan, change the mission of the Department which then can work with a smaller work force. And I think it can be done. It is not—it is by no means an easy task, but that is why I point to the CPD experience. We reduced the work force 25 percent and administered more funding, ran more programs, got more things done than when we had the larger work force. You can do it. You have to rethink the mission, but we have to rethink the mission of HUD anyway. Public housing areas. I was saying in response to Congressman Allen, we have to have a new vision of how we want to manage public housing in this Nation. The overwhelming majority of public housing authorities work well. "Well, then, why are we spending a lot of time regulating them and monitoring them? Deregulate and let the high performers work. Focus on the troubled portfolio."

You start to make those kinds of changes in your mission, you can do it. You start talking about contracting out more functions, especially these highly specialized functions rather than trying to hire a work force, train the work force, keep them up to date with all the changes in the tax code and all the changes in the real estate law. Contract out with attorneys and accountants and housing finance agencies that can do it. Those kinds of changes in the mission will then allow us to make the kind of efficiencies that we are looking to make.

Mr. SNOWBARGER. You had mentioned earlier devolving a lot of these responsibilities back to local authorities that have a track record of managing well. Do you have any feel for how much of this responsibility can be shifted?

Secretary CUOMO. Well, we have a little bit of apples and oranges. On this task, the Mark-to-Market task, the 8,500 properties,

that task is going to be staff-intensive whether we contract out, whether we do part of it in-house and part of it—I do not see significant, if any, reductions in that area on the multi-family side. That does not mean you cannot make those reductions in other parts of the Department. In other words, the work force has to come down. I am not saying it has to come down everywhere equally. It depends on where you can change the mission. This is not one of those areas. The devolution is more on the public housing side, to the high performing public housing authorities, the Portland Public Housing Authority. If they are working well, devolve the responsibility, monitor them so when they get into trouble, we know it, but otherwise devolve the responsibility and that is where you can save staff.

Mr. SNOWBARGER. Well, I guess the question was on the public housing side. Do you have a feel for how much of that can be devolved at this point? Or is it just anecdotal? You know, this one works well. That one works well. We do not have any idea——

Secretary CUOMO. We are going to have a draft of a specific proposal in the next several weeks, Congressman, but the overwhelming majority of public housing authorities work well. It is a handful that are the so-called troubled housing authorities that really require attention.

Mr. SNOWBARGER. Thank you, Mr. Chairman.

Mr. SHAYS. If we could, we will get further into the troubled housing authorities.

Mr. Kucinich.

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

Mr. Secretary.

Mr. SHAYS. And I think what we will do is we will go 10-minute cycles now. OK?

Mr. KUCINICH. Thank you.

I have been informed by staff of the ongoing discussion you have had about the Section 8 program and I have also been informed that the housing court in the city of Cleveland has been experiencing a very brisk trade in evictions in connection with landlords and contractors involved in Section 8. What I would like to have happen is for somebody from your office contact the Cleveland Housing Court, Judge Ray Biantra is the administrator of it, and to see if there is anything that can be done to effectively intervene to try to protect people from being thrown out of their homes.

I mean, the problem of homelessness in this country, as all of us agree, is serious enough without contractors taking advantage of various provisions that HUD may have. And you know, perhaps it is within your authority to intervene to see if you can protect some people from being thrown out on the street. So I would really like you to look into that and I just wanted to mention that in connection with this overall discussion about the program, if you would.

Secretary CUOMO. It would be my pleasure, Congressman. I am not familiar with the specifics that are going on in Cleveland, but we will be shortly, as soon as we leave the hearing. As you know, there are protections within the Section 8 program, and we will find out what is going on.

Mr. KUCINICH. Yes. I have just been informed just now, myself, and I thought I would notify you.

A question I have, Mr. Secretary and Mr. Chairman, there have been instances in the past in which local governments have attempted to use community development block grant funds to attract jobs and companies from other States. I wondered if it is your policy as Secretary if you thought it was appropriate use of community development block grant resources to be attracting, using those resources to attract jobs and companies from one State to another?

Secretary CUOMO. No, sir. We have been aggressive in promoting the use of CDBG for economic development purposes. CDBG is one of the largest programs HUD administers, $4.6 billion, 20-year program. So it has consistency, continuity, an entire infrastructure that understands how to use it. Historically, it was not used for economic development. It did a lot of good things, social services, infrastructure, public services, but not economic development primarily because HUD had not steered the program that way. It was part of the President's empowerment agenda, trying to get jobs into cities. We have been pushing the CDBG program as a way to attract businesses, grow businesses, small business loans, micro-enterprise loans, community development banks, all can be done by CDBG.

There is a specific prohibition against what they call piracy. New definition of piracy. It is no longer on the high seas. For us, it is stealing businesses from one city to the other by using EZ and EC dollars. So that is specifically prohibited.

Mr. KUCINICH. Now, when you say it is prohibited, is it by regulation?

Secretary CUOMO. Yes, sir.

Mr. KUCINICH. By administrative rule? By what?

Secretary CUOMO. I know it is prohibited by regulation. I do not know if it is in the law. I believe it is regulation.

Mr. KUCINICH. Excuse me?

Secretary CUOMO. I believe it is by regulation, sir.

Mr. KUCINICH. OK. And when were those regulations promulgated?

Secretary CUOMO. I do not know, but I can check. The anti-piracy regulations on the CDBG?

You stumped the entire staff on that one, Congressman. It does not happen often, but we can find out, and we will get back to you.

[The information referred to follows:]

The Empowerment Zones and Enterprise Communities Initiative, which benefits 105 urban and rural areas including Cleveland, Ohio, prohibits using funds to relocate businesses from one area to another [Section 1391(f)(2)(F) of the Omnibus Budget Reconciliation Act of 1993.]

The Community Development Block Grant program requires communities to use the funds in such a way that minimizes the displacement of existing businesses [Section 105(a)(17) of the Housing and Community Development Act of 1974.] However, the 23-year old program does not clearly restrict the use of funds to relocate businesses from one area to another.

Mr. SHAYS. And that is not, certainly, our objective. There may be a number of questions, if I could just at this time say that if we are not able to answer, we will just get the answer.

Mr. KUCINICH. OK. That is fine. And I agree with the Chair. It is not my intention to raise questions that cannot be answered. I would like to find out what the policy is to make sure that it is

in place and to make sure that it is enforced, that there is not any movement of jobs being occasioned through the use of Federal funds in community development block grants. And I appreciate your expression of what your policy is, because that is going to be very comforting to those of us who are concerned about keeping our jobs in our communities and when I was mayor of the city, we used that community development block grant program to go to, in fact, to improve the infrastructure of neighborhoods. And that, in turn, was responsible for helping to spark some local investment and helped a lot of the businesses in the area. So I know about the value of that program and I am pleased to see that you are intending to make sure that communities are protected in the use of those funds. And I am very gratified to hear your policy. I just like to know the history on it.

I have one other question, if I may, Mr. Chairman.

And this may be another one that, perhaps, you have already decided on and as a new Member, you may help me to catch up on some of these issues. Before August 1996, I understand that HUD had a J–1 visa waiver policy that allowed foreign physicians to come into the United States and practice medicine in under-served areas in the city where poverty-stricken people live. The program helped to provide medical services to many people in lower income communities. I wondered what the status is of that policy.

Secretary CUOMO. Congressman, could I just quickly step back to your other issue on the tracking business. It's a CDBG issue. It has also been an empowerment zone issue. Cleveland is also an empowerment zone city and one of the problems is moving businesses from one city rather than creating new jobs. And both were related. And I will get you information on both, the empowerment zones and the CDBG.

Mr. KUCINICH. I would be interested in that because, of course, the empowerment zone is of great concern to Cleveland. I think we received over $100 million.

Secretary CUOMO. Yes.

Mr. KUCINICH. In a program that has great implications for a large area of Cleveland. So your looking into that would also be very much appreciated.

Secretary CUOMO. Fine. I will do that, sir.

Second, on the J–1 visas. We are trying to get HUD downsized and we are trying to get HUD to focus on our core mission. Some tasks that are good tasks have to give way understanding the realities of the downsizing, et cetera. The J–1, the J–1 visa program, well, I think very intelligent in its intent, was difficult for HUD to administer. We were not really in a position where we can police, verify whether or not the doctors are then working in the areas where they are supposed to be working to qualify for these visas. It is not in our usual portfolio, the function of monitoring doctors and verifying where their service area is.

We discontinued the J–1 visa program at HUD. And we are now considering what, if anything, should be done about it, but the program is now discontinued.

Mr. KUCINICH. I would like to say on behalf of my constituents, Mr. Chairman, and members of the committee, that there is a great concern in areas such as Cleveland, particularly where for-

eign physicians have given their services in under-served areas, that the J–1 visa program be continued and I—on the one hand, it is comforting to know that the reason for its discontinuation were more administrative which I suppose relates to the dollar issues and not that the program, itself, proved to be a failure. What I think would be helpful, as we are all government looking at ways of doing better with Federal funds, it would be good to see if a cost benefit analysis was arrived at with respect to that program. To see if a discontinuation of it is not really more expensive in terms of the toll on the health of the people in the areas where these physicians were looking. I would really appreciate it if you could do that, because it would at least give us a chance to make an evaluation as to whether or not it was in the interest of the people to do that. I would really appreciate it if you would consider that, Mr. Secretary.

Secretary CUOMO. We will, Congressman.

One of the points I tried to get to in my opening statement was there were two focuses at HUD: (1) Section 8 crisis; (2) management. Part of the management is restoring the public trust. I want to make sure that if we are administering a program, we are sure that it is being run properly.

On the J–1 program, there was some suggestions that the certifications that were being put in, that doctors were working in those areas, that there were some cases where that was not actually the fact. And especially given the nature of this committee, I want to be able to say that if we are running a program, I know that it is working well and that we are in a position to run this program. And that is one of the issues that was with the J–1 program, whether or not the doctors were actually where they were supposed to be to get the visas in the first place and what was HUD's capacity to make sure that was the case, but we will—I will give you the analysis that we have done back at the Department. And then if you would like to chat about it, it will be my pleasure.

Mr. KUCINICH. Well, again, thank you, Mr. Chairman. I just want to conclude this round by saying that this is a very important department for so many of our urban areas. And as a person who represents a substantial part of the city of Cleveland, I am grateful that we have a Secretary who is showing this sensitivity to these issues and I think that it augers well for your relationship with the Congress. And I thank you so much for being here.

Secretary CUOMO. Thank you, sir.

Mr. KUCINICH. Thank you, Mr. Chairman.

Mr. SHAYS. I thank the gentleman.

Mr. Pappas.

Mr. PAPPAS. Thank you, Mr. Chairman.

Mr. Secretary, again, congratulations to you.

Secretary CUOMO. Thank you.

Mr. PAPPAS. I want to shift gears a bit and talk about two programs that I dealt with as a county official in New Jersey, that being the community development block grant program and the HOME Program.

First, a comment. The way it was structured, I believed was probably a great example of how even at times the Federal Government can allow great flexibility at the local level where local gov-

ernment officials can include people from municipal government and from the community to help make decisions. At least that is how we did it in Somerset County, NJ. And for my more than a decade as a county elected official, the CDBG program was very effective and one that really helped meet needs that were addressed in neighborhoods and communities. I think we need to do more of that. The HOME Program is not as old, at least my involvement is not as long standing; but, again, I felt that is a great example of how local governments could very effectively deal under some broad Federal guidelines, but we could meet identified needs at the local level. I would just encourage you to—you and your colleagues here from the President's cabinet to do that as frequently as possible.

Having said that, I am wondering if you could just comment and I apologize because you may have covered this while I was absent from the room, but if you could just comment as to how you view those programs and how you view their continuation in your overall priorities.

Secretary CUOMO. Congressman, thank you for the opportunity and thank you for the comment. The CDBG program and the HOME Program, I would just affirm everything you said with the only stipulation that I put a exclamation mark at the end of the paragraph. CDBG and HOME, to me, are as close to the model of Federal, local, State relations as you can get, because what they say is everything we have been talking about for the past few years: devolution, local control. But—but, not a blank check block grant. Right? Oversight committee. We want to make sure the funds are going to where they are supposed to go. Federal, Federal purpose.

And that is basically what CDBG and HOME do. They say, "This is the Federal goal, Federal purpose. This money is supposed to go to provide housing affordability to low and moderate income people, basically, the HOME Program." Federal goal, but let the local community figure out how to do it. We cannot sit here and decide what housing policies work for Somerset County or what community development needs are No. 1, 2, 3 in Somerset County.

Let's set the Federal goal, affordable housing, community development for low and moderate income people under CDBG. Let Somerset County figure out how to do it. Let them set the local means. One caveat and one caveat only, they should include the community when they start making those decisions, citizen participation process. CDBG started as a Republican program—since it is bipartisan and in my opinion really a great model of what should happen.

The HOME Program follows the basic template of CDBG. And as the Congressman points out the HOME Program has only been around since 1992, so it does not have the same institutional bearing or experience that CDBG does, but it is the same template: Federal goals, local means, involve the community, let the community decide. And those are the two mainstays of HUD.

You know, when people talk about HUD, we have the FHA housing side, public housing and then the community development side and the HOME and the CDBG program are the two pillars of community development. And where the funding goes in HUD, $4.6 bil-

lion, I believe the largest single program is CDBG. And it works well almost universally.

Mr. PAPPAS. We have had over the years, when I was county official, there were probably only three occasions in the 12 or more years that I was involved in it there was any kind of a question or objection from the community. And when you are dealing with 21 municipalities and my county and the number of local officials, municipal officials that we got involved and people from the community, that is quite a track record. And I would even just, in conclusion, would just add that I think the HOME Program was even as good as the CDBG program is, the HOME Program, I think, is even improved—it is an improvement in that I viewed there is almost less bureaucracy involved, at least that was my experience in New Jersey in the administration of it.

Secretary CUOMO. Well, Congressman, we ran the HOME Program—actually, 4 years ago at my confirmation hearing and the confirmation of Secretary Henry Cisneros, the complaint was the HOME Program, which at that time was not spending, because the department had so many regulations on it, at that time 4 years ago, only 3 percent of the money had been spent because there were so many regulations. And it was made clear to me at the Senate confirmation that they wanted that changed. Today, we have a spend-out of about 92 percent of the HOME Program, 110,000 units built. So it is working.

I do not like to say which is better, HOME or CDBG, because that gets me into trouble, but they are both working well.

Mr. PAPPAS. Let me just say one other thing. You're right. People back home, I hope they do not hear that I said that, but the community support, the understanding that they have of how well it works I think has been great. And I also think for both programs the pressure that there is to make sure that this money is spent within a reasonable amount of time I think is very appropriate. There are many non-profit agencies or most instances whenever there has been a proposal for some sort of housing, it is not housing rehabilitation of people's homes that meet the criteria, but where there have been non-profit community-based organizations whether it is for people and whatever their circumstances. Some just have not been able to put it all together and within a couple of years they are not able to and that money has been reallocated and it just works very well.

Secretary CUOMO. Thank you.

Mr. PAPPAS. Thank you.

Mr. SHAYS. I thank the gentleman.

At this time, I will call on Mr. Towns.

Let me give you an idea, Mr. Secretary, I know you have pressing needs and you have been very generous with your time. It is about 15 of, now. We are going to get you out of here no later than 15 after and maybe sooner.

Secretary CUOMO. Mr. Chairman, whatever works. At the pleasure of the committee, my time is yours.

Mr. SHAYS. Thank you. You have been very cooperative, but it will just give your staff an idea of how much. We will proceed about a half-hour more. Thank you.

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

There was testimony earlier about the empowerment zones and, of course, empowerment of communities. Could you sort of give us an assessment? I know you have not been around that long in terms of your views, your feelings as to how they are working up to this point?

Secretary CUOMO. Congressman, I think the empowerment zone initiative, the empowerment zone program as designed by the Federal Government is working well primarily because it allows for the individual circumstances that different cities and different communities bring. How are the empowerment zones doing? Which I think is a different question than how is the empowerment zone program doing. The empowerment zone program is doing well.

Mr. TOWNS. I agree with you.

Secretary CUOMO. The empowerment zones, it depends. It depends on what zone in what city in what context. The Cleveland zone is going very well. Really going gangbusters. I have been to the city a few times. They are actually attracting businesses from the suburbs back into the city with the empowerment zone, which is the exact opposite cycle that we have been seeing, businesses moving out of cities to suburbs. So Cleveland, it is working very well. Comprehensive, the communities involved, and it is bringing back jobs which is the purpose of the program.

Some other cities we have had more obstacles in the startup. Sometimes political obstacles, sometimes community obstacles. Some of the situations that we are trying to solve are more complex and they have opposition existing between and among community groups. And then the empowerment zone has to work through that context. So I think it depends. But the program, itself, is doing well. By and large, the cities are doing very well, some better than others.

Mr. TOWNS. Thank you very much. In New York State, in particular, we have been hearing a lot about privatization. You can go to any housing development and another rumor has started that it is going to be privatized. And of course, I am not saying, it is good, bad or indifferent. I think the real question is based on what has happened in Louisiana, and similar where there have actually been some selling of, what happens to the poor and the homeless if that happens? Is there any provision for them if there is move toward privatizing?

Secretary CUOMO. I think, Congressman, there is no silver bullet and sometimes we struggle for one solution that sounds like it is the panacea and it is going to solve everything. And I think in that context, sometimes privatization is thrown around. We privatize and then, presto, change-o, all the problems are gone.

I do not think it is a silver bullet. I think it has its place in some contexts and we have had good experience with privatization in some context. I think it is always, when you talk about privatization, it is always important to make sure you protect those whom it may not be in the private interest to serve. And that has to be factored in. Otherwise, it will not work for those who most desperately need the help which is the point of the program in the first place.

Mr. TOWNS. Mr. Chairman, I yield back. But I also, just before I yield back, want to say that I am impressed with your sensitivity,

I am impressed by your commitment and your dedication. So I want to let you know I look forward to working with you and trying to be able to solve some of these problems. I know it is going to require a lot, because, let's face it, when you are cutting a budget the way you are cutting it and at the same time the need for services are increasing, you have to almost be a miracle maker. What we are saying to you is that I am hoping that this committee along with the Congress will join you in terms of trying to be able to come up with some solutions. So I look forward to working with you.

Secretary CUOMO. Thank you very much, Congressman. Thank you.

Mr. SHAYS. I thank the gentleman.

I am going to focus in on the distressed public housing, but I just want to touch on the fact that you clearly have a massive undertaking here. Is it your intention to suggest reorganization of HUD? Are you going to be coming in with any plan? Or are you just going to be responding to proposals that have been made by others?

Secretary CUOMO. We will be coming in with a management plan for HUD, Mr. Chairman. We will be coming in with a plan that is driven by a new vision of the mission of the Department, how to accomplish that and then a downsizing plan for the work force in response to the revised mission.

Mr. SHAYS. Thank you. And clearly, your management needs are acute. I mean I would say that to whoever was Secretary. I would also say to you because I know it is so significant, I have some sense of patience about how long it will take and so on, but it would seem to me—if I were Secretary, I would almost have a crisis management team on this issue, I would have a crisis management team on management. And the other area that I am concerned about is the whole issue of distressed public housing. I am pretty convinced from my obviously limited experience in my own district, because I just have 10 towns, but I have a Stanford, a Norwalk, and a Bridgeport, but I have been on this committee, now, for 10 years and one of the things that surprised me is if you have a capable and talented public housing authority that really uses money well and does not try to hire people for political reasons, but just hires the best and the brightest, you can do extraordinary things. If I can get a little parochial, I just am extraordinarily impressed with the housing director in Bridgeport and what HUD has been able to do with this housing authority. And Mayor Ganum happens to be a Democrat who has been a very good leader of that community.

Mr. TOWNS. Most Democrats are. [Laughter.]

Mr. SHAYS. That is true, most are. And in one case, in one case, one of the most is in Bridgeport. Now, I could say all Republicans are—[laughter.]

But I am concerned. I think we provide a lot of money to public housing authorities. And if they use it well, they can use it to leverage, they can do a lot. But what concerns me is that I do not think there is a real plan on how you decide when to take over a public housing authority. And I do not know how you wean them off the list. And if you could just touch a little bit about troubled housing authorities?

Secretary CUOMO. Yes, sir, Mr. Chairman.

First of all, on your overall point about the serious nature of this problem, I could not agree with you more, and we do very much have a crisis mentality on this issue. And I said in response to Congressman Snowbarger, we have a downsizing plan, a management plan, but it is driven by how to get the job done. It is not a numbers game. And we will have personnel where we need personnel and we need personnel to work this out.

Mr. SHAYS. You are talking about Section 8.

Secretary CUOMO. Section 8.

Mr. SHAYS. Yes.

Secretary CUOMO. Even though we want to go primarily to third party outside sources to implement it, we still have to make sure it is done right. So this is no doubt a priority.

On the distressed public housing, I could not agree more. Where you have a good public housing authority, it is amazing the kinds of things that they can do. Father Panis Village Hope Six Grant which basically just—program on Hope Six was those comprehensive solutions devolved to the local authority, learning the lessons that we have learned, but let the local authorities work it out. And it has been working quite well. And what we would like to see on the public housing side is more devolution, deregulation to those high performing PHAs. Let us focus on the distressed public housing authorities.

And then the chairman raises another interesting point: What is a distressed public housing authority? At what point do you become a distressed public housing authority? HUD has a grading system. We call it PHMAP, but it is actually a grading system that grades the management of a housing authority. And you get a score. You then have a passing score or a failing score. If you fail, you are now a troubled housing authority. If you pass, you are an acceptable performer. That score, that PHMAP score which we have revised recently, we are going to have discussions about revising it again, especially if we move more toward deregulation, because then that score is very important. Based on that score, you will decide to deregulate or not. And that is the PHMAP score. And as I said, it has just been revised within the past several weeks and we are going to take a second look at it, especially if we go more toward deregulation.

Mr. SHAYS. It just strikes me that you have a danger of making sure that you do not manipulate it or game it. There are so many ways you can make a decision on who is distressed. Obviously, you have to have gradations. And I suspect that even with the limit of staff that you have that you are going to have a hard time dealing with all the distressed public housing that you have.

What I am trying to understand is do you have a management team that focuses on this? A management team on Section 8, a management team that focuses in on distressed public housing? A management team that is focusing just on management problems?

Secretary CUOMO. Yes. You have the three main program areas. We are talking about, one is the housing department. Nick Retsinas, Stephanie Smith is the deputy who is here today. You heard from her earlier. That is basically working on this as their top priority. The Section 8 crisis is their top priority.

Mr. SHAYS. Right.

Secretary CUOMO. Public housing, Assistant Secretary Kevin Marchman is focusing on the public housing problem and we are focusing on that PHMAP monitoring score, how to deregulate high performers and how to handle the distressed public housing in this country without HUD running out there and managing every project. The third program area is community planning and development. That is the HOME Program, CDBG, and then fair housing would be the fourth.

Mr. SHAYS. I am just going to express some concerns and then I will be done and I do not know if any Member just wants to jump in for later. It seems to me that there is obviously multi-discipline. One of the things I was amazed to find is the Department of Agriculture has public housing for rural areas. And that was a surprise to me. But I mean I can see a tough decision for you as Secretary to decide, "Well, do you get into policing? Do you get into drug control issues? Do you get into welfare reform?"

And I would think in one sense the answer is, yes. And the other way, you are just saying, "Well, my gosh, I am just dangerously spreading myself and the Department too thinly." I am not asking for a indepth explanation, but tell me how far you take the interdisciplinary and where do you sometimes bring another department in or do you say, "Heck, we can do it and we should do it?"

Secretary CUOMO. I think, Mr. Chairman, you have to do both. I think the interdisciplinary is almost forced, if you are going to make any of these things happen because we talk about comprehensive solutions on the community level. Community development people, local housing authorities will say, "We need comprehensive solutions, otherwise it doesn't work." They will talk about holistic solutions. They will talk about continuums. They will say, "I cannot just do housing. I have to do housing and community development and I have to have the jobs or else none of this works." That, by definition, is interdisciplinary. How do you do that? I think on the highest level, it is interdisciplinary among Federal departments. Cooperation among Federal departments. It is the point of the Vice President's Empowerment Board that cross cylinders, cross Federal departments, bring that coordination.

And then within HUD, it is the same thing. When we go to talk to a city of Bridgeport or any city in the country and we say, "We are here to help," they do not ask us just for housing. They need housing, but they need more than housing. And they need that housing in a context. And they ask for economic development assistance, which we have a very large portfolio we did not really talk about today, but we have significant efforts in economic development, job creation, which is more and more a priority. Welfare reform: at one point, the time limit is up. Somebody needs a job, otherwise nothing is going to work. They need the economic development. They need the policing. They need safety in public housing. "One strike and you're out." "Operation Safe Home." Initiatives that we have. CDBG works in that area. They need the community development and they need the housing. So I think for us to do our job, we have to be able to come up with a comprehensive solution, albeit in a very intelligent and efficient manner, given all the other constraints.

Mr. SHAYS. I am just going to make a few observations and I welcome any of the other Members—we are going to get you out by 15 after, but——

Secretary CUOMO. Whatever. Take your time.

Mr. SHAYS. I know. The problem is not on your side.

One is that I spent about 3 years, but a year really focused on how do we rebuild cities, since I represent three. And we met with every conceivable group. And when we came right down to it, we came down to this basic answer: the way you save urban areas is to bring businesses back in to do two things, to pay taxes and help create jobs. And of all the things, so I know that this Congress is not as eager to have HUD in economic development, but if you gave me a choice, frankly, of fixing up public housing in some instances or providing an area where you could bring in a business and they could employ people there, I would encourage that.

Now, one of the ways I think that HUD can serve in a very dynamic way, you have the issue of impacted/non-impacted. And I will not even localize it to a particular community. But in an area where you are redoing significant public housing, your requirement is to go into a certain number of non-impacted areas. And non-impacted areas sometimes tend to be low-zoned areas where you do not have as much density. And one of the things that we found in one of our communities is that when we did the vouchers, we actually created something we did not intend. We took home-owned neighborhoods that were mixed. Black, Hispanic, white, but they were home-owned. And they were solid. And then Section 8 came in and really in some cases Section 8 pays more than the vouchers, paid more than the market rate, which is kind of interesting. And they came in and they ended up making some streets rental instead of home-owned. And it had a very kind of negative, unintended impact. And the irony was that in one of my communities, the public housing is better than the neighborhood. They have a flag. They have a shield up front pointing out this is public housing. It is well-maintained and they have upgraded neighborhoods. And it would seem to me that one of the ways to rethink the whole issue of impacted and non-impacted would be to give communities some leeway if in the process of building more and impacted, they have a partnership and require them to have partnership with the business community and others to do economic development, store fronts, a whole host of other things that really—then you have taken the public housing that has been a catalyst for economic development without even your putting money in. But basically saying, "OK, we will forego to some measure the impact and non-impacted, but we have different requirements now. You have to upgrade the community economically by your doing that." And it may be a way for you to do that interdisciplinary just because of the carrot that you have of saying, "Well, if you don't, you are going to go into single family neighborhoods."

I mean the silly thing was that we were having in one of our communities, HUD was buying individual homes, just a plethora of them and having minimal impact over all. So that is just the one thing I just want to share with you.

Do you have anything you would like to share?

Mr. TOWNS. Thanks, Mr. Chairman.

Mr. SHAYS. We usually close by asking is there any question that you wish we had asked. And also, with your indulgence—sometimes the staff who get to enjoy not saying anything, but also think a lot in terms of your response to our questions—if any of your staff want to make a point, we would welcome that. If there is some point in hearing these questions and the answers of the Secretary, we would welcome you doing that. And I do not think the Secretary would mind, because I am sure you would not contradict him. But do any of you want to make an emphasis?

Secretary CUOMO. They are a shy group, Mr. Chairman.

Mr. SHAYS. They are shy.

Secretary CUOMO. Here, they are a shy group. Not at HUD. I can promise you that.

Mr. SHAYS. No, but they are sizing you up. Any question that you wish we had asked? [Laughter.]

Secretary CUOMO. Let me say, if I might, Mr. Chairman, I hope we have made clear in this hearing and I know that the committee stated it in your opener, so you did not need us to bring it to your attention, but if we could reaffirm it, hopefully, the Section 8 problem we need help with. It is a desperate situation for the Department. I have been told by people who have been at the Department from day one that this is the greatest crisis HUD has ever faced. Forget the 1980's and the scandals and everything else. This is it. And it is not just for the Department. This is not an inside-the-beltway story.

Mr. SHAYS. Yes.

Secretary CUOMO. This is every city across the country—6 million Americans. This will be the legacy of affordable housing between now and the year 2000. What happens here will be what we did with affordable housing as a Nation. And we need your help. We cannot do it without Congress. We understand that.

Second, on the management, that is something that we can do. That will be our priority. I have heard this committee, I have seen it in your correspondence earlier, it will be my personal priority and we will be working on it. And I hope to have in 18 months noticeable change that we can report back to the committee. And beyond that, Mr. Chairman, again, my 4 years as Assistant Secretary showed me the only way anything happens is when it happens together, bipartisan, with Congress; and I am looking forward to a productive relationship and I think we can do good things. We have real challenges here, but we also have real opportunities. And met, we can make things better than they are today if we work together.

Mr. SHAYS. Do you want to just thank the Secretary?

Mr. TOWNS. Right. Mr. Chairman, thanks a lot.

I would just like to thank the Secretary for coming and that I really think that he shed a tremendous amount of light on many subjects. And of course, as I indicated early on, I look forward to working with you. It just feels good to have someone that truly understands the problems out there. And I think that also makes a major difference. Sometimes you get a new Secretary, they have to spend 2½ years getting familiar with the problems that are out there. And then by the time they get familiar with the problems, they are gone. Your situation is so different. You are thoroughly familiar with the problems and we look forward to working with you.

Secretary CUOMO. Thank you.

Mr. SHAYS. I concur and thank you again for coming. Have a great day.

Secretary CUOMO. Thanks for having us.

Mr. SHAYS. This hearing is adjourned.

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