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THE BUDGET OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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THE BUDGET OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

THURSDAY, APRIL 26, 2001

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

The subcommittee met, pursuant to call, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Marge Roukema, [chairwoman of the subcommittee], presiding.

Present: Chairwoman Roukema; Representatives Oxley, LaFalce, Kelly, Bereuter, Green, Barr, Grucci, Tiberi, Cantor, Rogers, Sanders, Miller, Watt, Velázquez, Waters, Capuano, Jones, Schakowsky, Lee, Frank, and Clay.

Chairwoman ROUKEMA. The hearing will come to order.

The Housing Subcommittee of the Financial Services Committee. I would like to greet everyone here today and certainly welcome our Secretary, Mel Martinez.

But before we do that, I just wanted to, on a personal note, I am not smiling about this, you understand, but it is a great opportunity for one of our most devoted staff members, so we have to be congratulatory to him, but again we are going to miss him desperately.

Aquiles Suarez will be leaving the committee staff this week. Aquiles has served very admirably on the Subcommittee for Housing and Community Opportunity for 5 years, and his legal expertise and his congenial way of bringing people together will be very sorely missed, and that is why I am not smiling.

But, we should all be happy and the Nation should be happy that he has a new appointment and will be serving this Nation as a member of the staff at the White House as Special Assistant to President Bush on Domestic Policy Council.

[Applause.]

Chairwoman ROUKEMA. Aquiles, thank you for all you have done, and best wishes and good luck as you serve our Nation.

[Applause.]

Chairwoman ROUKEMA. All right. Thank you all for coming. This is the first subcommittee hearing with Secretary Martinez, and we want to thank you for being here today and greet you warmly.

The hearing was scheduled originally for yesterday, but we asked for an additional day, and you were very cooperative in terms of rearranging your time. And I would also say that in that vein, we must try to keep our opening statements as brief as possible, so

that we can provide Mr. Martinez with the proper time, considering his tight schedule.

Certainly, we are looking forward to years of a warm and productive relationship with Secretary Martinez. He comes to us with a new level of experience. And I would like to note that he has really on-the-ground experience, as we like to say, and in-the-trenches experience, having served for a long period of time as chairman or, as many of us know, chief executive, of Orange County, Florida, and has been outstanding in terms of the kind of work that he has done in community relations in that capacity.

I am very happy to have him here to be outlining to us, early in the process, the outlines for the budget. There are some items in that budget that, in my view, and in the view of others on the subcommittee, warrant further discussion than this gives the actual opportunity to discuss at an early point in time, not only the budget, but anticipate the appropriations process that we will be going through in light of some of the housing affordability problems that we have been focusing on, and many have been focusing on in our Nation today.

The growth in the economy has created a well-known major dilemma for an increasing number of working class and low-income Americans.

Of course, we are happy for the economy, but a better economy has also meant higher rents in some areas, and so we are trying to adjust those income levels and making housing availability fill a wider spectrum as was originally intended.

As we discuss the budget, I know that you share my desire—or our desire—to move forward to address the housing problems in an effective manner.

And, Mr. Secretary, I consider myself a strong fiscal conservative so, for my part, I do not automatically presume that each and every Government program that currently exists deserves an increase in funding merely by virtue of being there.

But let us remember that the American taxpayer deserves consideration in this budget debate as well, and so we have to be as objective as possible in evaluating the priorities.

If redirecting resources from one program to another means that resources are being used more efficiently and effectively, then we certainly will be supportive, and of course, we will work together with you on evaluating those programs and discussing the rationale.

With that in mind, I hope that you will, in the course of your testimony and in your answers to our questions, deal with a few specific areas.

The first is the question as to whether or not the HUD budget signifies an increase or a decrease from prior years, and if you do not hear it from our side, you will certainly hear it from the other side.

You know that the expiring multi-year Section 8 contracts, which are then renewed for annual terms, take up an increasing amount of HUD's budget authority.

And as a result, just to maintain the current Section 8 contracts requires an increase in that budget authority. And so we will be wanting to probe into that in rather specific ways.

Second, you have reduced modernization funding for public housing by $700 million, and the budget also, as we have looked at it, apparently eliminates the Public Housing Drug Elimination Grant Program, and that is of concern to a number of people.

Finally, the HUD budget provides approximately $200 million for a down payment assistance fund. It is a set aside from the HOME Program, and I do not quite know how that is handled, but whether or not we should consider this a reduction in the program is a question that comes up, and are we supposed to provide localities with maximum flexibility and how can they use these resources.

Those are questions that have been raised.

Mr. Secretary, I will be pleased to assure that I will work with you over the coming months in developing our Nation's housing problems and look forward to your testimony.

I will also make this observation, and it will come up in the questioning, so I will not take too much more time on it. But having served on a panel as recently as yesterday on the subject of charitable donations and those kinds of approaches that the President has outlined, I think we should be asking questions regarding how we can work with charitable organizations and non-profits to improve the quality of services through the HUD program.

And with that, I will yield to our Ranking Minority Member, Mr. Frank.

[The prepared statement of Hon. Marge Roukema can be found on page 50 in the appendix.]

Mr. FRANK. Thank you, Madam Chairwoman.

I want to express, at the outset, my appreciation to Secretary Martinez. I know there were some scheduling difficulties and he accommodated us by giving us this time, and we appreciate that.

And I also want to express my agreement with many of the points that you talked about, and I think you outlined, many, many important questions we have.

The first is the need, in my judgment, for a renewed emphasis on housing production. Now I was pleased to see the Secretary of HUD made a reference in his last page to expanding the production of affordable housing, which would be accomplished by raising the limits on multi-family insurance, which bill I believe the Chairwoman and I are introducing.

She has taken the lead, I was glad to support her. But I would point out that, in and of itself, while that is a very welcome thing, it is not going to deal with the problem of affordability much in the country, because while that insurance is very helpful, we have this problem.

One of the great misleading phrases in our politics is "the rising tide lifts all boats." It is a good thing to have the economy grow. It is a good thing when the free market system generates a pot of wealth. And most people in this country will benefit from that.

But some not only do not benefit, they are left behind. If you do not own a boat, the rising tide is not good news when you are standing on tiptoe in the water. And that is what we have got in many of our urban areas.

The very prosperity that has been a great boon to most of us exacerbates the problem of people who live in those areas where

housing costs are driven up. And we have got to do more to deal with that.

The voucher program is a very useful program, but as I think both Mrs. Roukema and I have mentioned in other cases, it is more helpful in some areas than others. It is a function of your housing situation.

And let me put this in good, free-market economic terms. As long as we are doing a voucher program, which is a year-by-year program, where there is no ability to build up the vouchers or make a commitment, vouchers have no effect basically on the supply of housing. No one is building housing based on year-by-year vouchers.

What we do with vouchers then in crowded areas where there is a shortage of housing in particular, and affordable housing especially, we are adding to demand without increasing supply. And every good free market economist knows what happens when you do that; you drive up prices.

Now that does not make the voucher program a bad program because it adds equity, but the overall effect of the voucher program, absent some attention to production, is to drive up prices overall. And so I think the voucher program needs to be supplemented.

In some parts of the country, the voucher programs are confederate money, not confederate flags which still fly, but confederate money, because you can be given a voucher in many communities in this country and 3-, 4-, 5-, 6 months later you are going to turn it back in, because you cannot find a unit to rent.

So we need to address affordable housing, and the 25 percent increase is a start, but it is not nearly enough. We need to put a subsidy on it.

Second, I was pleased that the Chair raised some of the questions about public housing. The poorest people in America live in public housing. And it is true that in many cases, public housing was a kind of an example to some people of how not to do things.

Let's always remember that it was not the poorest people who said: "We have a great idea, we need housing, why not build some massive projects with no services and no adequate space and jam us all in together and see how it works?

We did that, this society. And so, as a result, some of the public housing projects did not work well. But over the past decade, we have learned how to do public housing better and there are very good examples of it.

There is elderly housing, public housing for the elderly, one of the most desirable things in any community, according to the waiting lists and the consumer demand. But family housing too we have done better.

The budget unfortunately does not meet that commitment. We do not want to leave any child behind, but there are more children in public housing who have historically been left behind by all elements of this society.

Now you mentioned, for instance, the operating budget in your statement. And you are honest about it. You say you are cutting the operating budget, you are cutting out, for instance, the Public Housing Drug Elimination program at $309 million and you say

that could be made up for out of the increase in the operating budget, which is $150 million.

And you also note correctly that utility costs are going up. Well, the increase in utility costs and the elimination of the drug elimination program outweigh the increase in the operating budget of public housing.

And what we are going to get, I am afraid, is less resources devoted to the poorest people in this country who live in public housing; the children, the single mothers, people with various kinds of problems.

I was also, in that context, disappointed in particular with the disappearance of a program—maybe it is pride of authorship on my part—but when this subcommittee initiated, years ago, legislation to allow public housing authorities to separate disabled people and elderly people, because some of the people classified as disabled were emotionally ill, mentally ill, and they were disruptive in the elderly context, and we said, elderly housing by public housing authorities, if they want to, can separate out older people from the disabled.

But to alleviate the negative impact on the disabled, we created this separate incremental voucher program, Section 8, for the disabled. And that is eliminated in this budget. And it is true, you will note, people can do that, if they want to, out of their other allocation, but they could before we set this aside.

We did not want, when a housing authority segregated out elderly and the non-elderly disabled, we did not want them then to have to go compete with a limited number of vouchers in other cases.

And as the Chair pointed out—and I will end this in a few seconds, Madam Chair—you keep our commitment to the Section 8 contract, and I appreciate that. But taking that into account, there is a net reduction in other Section 8 vouchers. In fact, we get 160,000 new units for the Section 8 contracts, but then we lose 63,000 in tenant protection assistance, incremental vouchers, and the disabled.

So those categories bother me greatly and I hope we can pursue them.

Chairwoman ROUKEMA. All right, thank you.

I am going to recognize the Chairman of the Full Committee, Mr. Oxley, and the Ranking Member of the Full Committee, Mr. LaFalce, but then I would hope that others would refrain from opening comments so that we can have ample time and consideration of the Secretary's limited time to hear his testimony and have ample time to ask questions before we begin voting at 11:30, so let's see how well we can handle this.

Chairman Oxley, please.

Mr. OXLEY. Thank you, Madame Chairwoman, and Mr. Secretary, welcome to your first appearance here before the Financial Services Committee, and all of us, I am sure, look forward to working with you on a number of initiatives and ideas as it comes before HUD, as well as our committee.

All of us recognize that the cornerstone of the American dream is homeownership, and clearly all of us will be emphasizing that as we work our way through this agenda.

The fiscal year 2002 proposed budget for HUD is the first official indicator of the direction of the new Administration's housing policy. It is a balanced package that combines new initiatives with sound management to allow the department to achieve its mission and its goals more efficiently.

There are a number of good new initiatives. The creation of a down payment assistance program for first time homebuyers; community technology centers initiative to help communities create or expand technology; and the improved access initiative to make religious and civic organization buildings accessible to the handicapped, to name a few.

And additionally, HUD has substantial responsibility in the area of brown fields redevelopment, an area that I have been involved in in my previous life. I have a long history of working on brown fields and now that our good friend, Paul Gilmore is chairman of that subcommittee, and the committee across the hall, as well as a Member of our Committee, we think the brown fields issue should be front and center for our respective committees.

I know that in my own district in Mansfield, Ohio, with HUD's assistance, the program takes low-income families with children paying high rents, and transitions them to homeownership.

This program, which was nominated for a HUD award, works with local lenders to help with down payments and closing costs assistance, plus credit counseling for those who need it.

And since that program began, we have now 34 homeowners who used to be 34 renters just in a town the size of Mansfield, which is about 50,000.

And I applaud Chairwoman Roukema's leadership in this very important part of our committee's jurisdiction, and I look forward to a productive relationship over the next several years with the subcommittee and with the secretary.

And I yield back the balance of my time, Madam Chairwoman.

[The prepared statement of Hon. Michael G. Oxley can be found on page 52 in the appendix.]

Chairwoman ROUKEMA. Thank you, Mr. Chairman.

And now the Ranking Member of the Full Committee, Mr. John LaFalce.

Mr. LAFALCE. Thank you very much, Madam Chair.

Secretary Martinez, a very, very warm welcome.

Secretary Martinez, in the last paragraph of your testimony, you say that your agency is committed to continuing a strong relationship with Congress, so that together we can make the Department of Housing and Urban Development an efficient and effective fighter on behalf of America's housing and community development needs.

And I very much want to have that type of close, strong, working relationship too. Mr. Ventrone can tell you the relationship that I had with your predecessor, and I would hope that we could have an even better relationship.

I am disappointed though that you and I have not met thus far. I think to have a good relationship, we should have a meeting pretty soon.

I note one was scheduled that you had to cancel, but let's try to get together soon.

I also note that in your statement, you say you want to focus not so much on programs, but on people. Well, it depends what you mean by that. If the end product is that more people are going to be helped, more communities are going to be helped, and so forth, if it means that we are not going to be helping developers, if we are not going to be helping people who, you know, skim money off of programs but are not the beneficiaries, then I could support that.

But, if we are really cutting programs that are the means of helping people, and we are just using that slogan as an excuse to hide the reality, then we would have some difficulties with you, and some difficulties with the Administration.

And that is my concern. And let me share you with why I am troubled by the Administration's HUD budget.

I understand that on a purely technical basis, budget authority is $1.9 billion higher than under last year's bill, but this claim relies on the use of $3.6 billion in Section 8 budget authority increases that I think are phantom increases, that do not increase spending by a single dollar, that do not provide rental assistance to a single new tenant, and do not provide any additional assistance to existing Section 8 recipients.

And this phantom increase was predicted 5 years ago. It results from the fact that there are expiring Section 8 contracts, billions of them, and they require—the expiring contracts—new authority, and you are counting the new authority of the existing Section 8s as increases.

I think that is misleading at best. Now—and it is not to say that you are the first Administration that has done this, OK? Past Administrations, both parties, have done this. It has been wrong for them too.

But when you factor out the artificial increase, we find that funding for HUD in nominal terms—nominal terms—is actually $1.7 billion lower than last year's, a 6 percent cut.

And when you go to real dollars in inflation adjusted terms, the cut is $2.2 billion, 8 percent. Mr. Ventrone, would you please nod in the affirmative to that also?

I think that this claim is borne out by the details. I think it would reveal and $859 million cut in public housing, a $310 million cut in the CDBG count, a $200 million cut in HOME formula grants to States and localities, a dangerous $640 million cut in Section 8 reserves, and a reduction in funding for incremental Section 8 vouchers by $255 million, and as a result, over 45,000 fewer low-income families would receive a voucher this year than last year.

That is a serious concern. It does not sound to me, if these figures are accurate, that we would be helping people, or helping more people.

I could go on and on. I will not. I will submit the entirety of my text, but I have prepared a State-by-State analysis of the major cuts in the HUD budget, totaling over $2 billion, and copies of this chart are available for your perusal and the public's perusal at any time.

I thank you very much.

Mr. FRANK. Madam Chair, before we forget, can we just get general leave to put in statements of others?

I have one for Ms. Velázquez, and so I would ask unanimous consent that any other Member who is not here who wanted to submit his or her statement would be allowed to do so.

Chairwoman ROUKEMA. Yes, but I would also ask unanimous consent for that as well as in consideration of the time and the fact that we want to have maximum time for questions from every Member of the subcommittee that is here, that we ask unanimous consent to have your opening statements included in the record.

Ms. JONES. Madam Chairwoman, does that mean that everyone that is here will have a chance to make inquiry of the Secretary?

Chairwoman ROUKEMA. Well, that is what we hope to do in the time that is available to us. That is exactly what I am aiming for. That is my objective.

And if we start now, I believe we can reach that goal.

All right.

Mr. Secretary, thank you very much and again we greet you at the first of what I expect to be a number of hearings on the housing questions. As you can judge, this is going to be a high priority.

I know it is a high priority for this Administration, and it is certainly a high priority for this Congress.

Without further delay, we greet you here, Secretary Martinez.

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

Mr. MARTINEZ. Well, thank you very much, Chairwoman Roukema and Ranking Member Frank. I am also pleased to greet Committee Chairman Oxley and Ranking Member LaFalce.

Let me just say that I apologize for our not having gotten together, but I assure you we will correct that and look forward not only to a meeting, but to a very productive relationship, and to ensure that as we go forward particularly in this budget process, that we talk through the issues so that at least if we find areas of disagreement, we are disagreeing on the apples-to-apples basis and not on apples-to-oranges, which I fear currently may be part of the problem we have.

In any event, I am here and very pleased to be with you today and look forward to our ongoing relationship in the months and years to come.

And I want you to know that I am both humble and energized by the opportunity to serve as Secretary of the Department of Housing and Urban Development.

I know that the President is, as I am, committed to restoring communities and to working diligently to ensure that the confidence of this Department is restored to the Congress, to the constituencies that we serve, and to the people of our country, as we try to operate the Department in a way that is efficient, that is prudent, that is clear.

This budget I hope is a first step in restoring some confidence. It is what I believe to be a compassionate and responsible budget, and I think it tries to serve people effectively and tries to empower individuals and communities across the country.

And one of the things I hope I can explain, as we discuss it this morning, is the fact that when I say we seek to serve people and not programs is that just because we have a program, it does not

always mean that it is serving people as we hoped that it would. And that perhaps there are better ways in which we can deliver the services and be there for the people that need it.

I think we will be measured by not how much money we spend, but how many families have a better home, and how many more people, more immigrants have a chance to buy their first home in America. How many children grow up in the neighborhoods that we would want our own children to grow up in.

The Department of Housing and Urban Development's proposed budget for this year is nearly a 6.8 increase, almost a 7 percent increase for the year 2002.

And it includes three new homeownership initiatives to expand opportunities for hundreds of thousands of low-income and minority families.

The American Dream Downpayment Fund will provide $200 million to match downpayment assistance helping more than 130,000 low-income families overcome the greatest single obstacle to homeownership, which is the downpayment.

We have also proposed a tax credit which will support rehabilitation or construction of at least 100,000 homes for low-income families over the next 5 years.

And the Administration will also seek authority to offer low-income families new adjustable rate mortgages called "hybrid ARMs," and these new mortgages protect new homebuyers from dramatic changes in market rates until they can establish a good economic foothold.

Finding affordable and decent housing continues to be a problem for many Americans, and I know you are aware of the numbers which the studies have shown to be almost five million renter households have worst case housing needs for rental housing.

This number represents an 8 percent decline over last year, but it is still an unacceptably high number.

In order to expand the production of affordable housing, the President proposes to raise the limits for FHA multi-family insurance by 25 percent, and we are grateful to you, Madam Chairman and Ranking Member Frank, for your initiative in moving forward the legislation to enact that which we think will be a great spur to a new production of homeless construction.

And this is going to be the first time that this occurs in nearly 10 years. The budget renews all Section 8 expiring contracts at a cost of $15.1 billion, and an increase of $2.2 billion over fiscal year 2001.

And it additionally funds 34,000 new Section 8 vouchers at an additional cost of about $200 million.

And market conditions affect the utilizations of vouchers in different areas in different ways, but underutilization is ultimately a management issue and each year, we find that there is tremendous underutilization of the vouchers.

We find that that is more directed to management than it is to market conditions in any given area. Last year alone, 300,000 families across America were left unassisted because of the unabsorption of funded vouchers.

The budget also fully funds last year's administrative CDBG requests of $4.4 billion. In addition to formula funding for CDBG, we

provide $80 million in grants for a community technology center. This is particularly going to be focused on economically distressed areas.

The Administration believes that again no child should be left behind, and by increasing access to information technologies, this Administration hopes to begin to bring opportunities for technology enhancement to all the children in our society.

The budget recognizes the needs of our most vulnerable people in our society; the elderly, the disabled, the homeless, and individuals with AIDS. All of these HUD programs for these vulnerable populations either receive, sustain, or increase funding levels.

The budget also recognizes the damage done by lead-based paint, especially to young people. We have increased funding for lead-based paint hazard reduction by $10 million.

And while most of the Department's programs are funded at last year's historically high levels, or have received an increase, there have been a few reductions that have been well-noted, and I know some of you have already discussed those in your remarks.

But let me say that to restore the confidence that the Department should have to carry out its core mission, we need to be clear in what we do and the results that we anticipate.

We eliminated the program called the "Drug Elimination Program." It is a $309 million program. And we have taken $150 million of that money and shifted it into the Public Housing Operating Fund Grants, which will allow public housing authorities to continue to utilize and operate those anti-drug efforts that have been effective, while at the same time forcing a certain amount of discipline so that we can avoid the kinds of programs that have made this program be something other than what I know your funding intended for it to be.

The President's budget, in its full context—and you have to remember that the Administration's budget, as it relates to drug use or any other effort, is a budget at large—almost $19 billion is going into the drug fighting effort.

All of these efforts, all of these dollars, have no particular exception to people that live in public housing. Poor people are just as entitled to police protection by their local police as anyone else that lives in the community.

And what we have seen in this program is a shifting of responsibility. We have seen that some public housing agencies, in an attempt to do the good things, have hired additional police.

The fact is, that is a shifting of responsibility. The idea is that they might be operating drug treatment programs or they might be operating outreach to children in ways that might keep people from getting into the drugs in the first place.

The fact is that housing agencies are not very good at the provision of law enforcement services. In fact, at times, they are extremely challenged to do that very simple thing that they are the only ones who can do, which is to be the landlords of public stock.

Another reduction in our budget occurs in the Public Housing Capital Fund. But I want to make it very clear to you that the reductions in this Capital Fund will still allow every—the funding requests that we are making is 2.3, and that funding request is al-

most the same as what was made by the Administration a year ago.

With this amount of money, we know that all the projects that are in the pipeline that are asked for, that are needed at this time, will be taken care of. What it does not do is add money on top of those funds that are already there, but have not been either spoken for or allowed to be utilized in any way, shape or form.

So we are not adding money on top of money that has not been used. But we are not, in the cut of the Capital Fund, going to create any cuts in those repairs and those maintenance projects that public housing agencies currently need to bring about.

The PHAs have a backlog of about $20 billion in repairs by the last studies of 2 or 3 years ago. These backlogs are not dealt with in this particular budget. But the fact is that the needed repairs, those things that are on the books, will all be taken care of, and there will be no housing authority which will not be able to do the maintenance work that they must do or the modernization work that they must do.

The PHAs currently have over $5.1 billion in backlog funding. This budget encourages them to spend those funds to address their priority needs, and the Department will also make every effort to distribute the funds in a timely manner.

But let me just say that we have labored mightily to strengthen management in the Department. This has been done in the past, but we still have a long way to go. We have a bright and dedicated work force at HUD, but for all this work, HUD still remains an agency with serious management challenges.

Too much emphasis has been placed on programs rather than on people, and on dollars spent rather than results accrued.

The President is openly and strongly committed to focused programs in an efficient Government that works, and my approach to the task will focus on our four governing principles.

First of all, our mission will be to serve people and not programs.

Second, we will have the discipline to stick to our mission. I think we at HUD must avoid mission creep.

Third, we will be good stewards of the resources that we are entrusted.

And I think fourthly, we must observe the highest of ethical standards. This means more than prosecuting graft. It means rejecting the subtler corruption of settling for good appearances rather than insisting on good results.

So this also includes that public housing agencies that receive our funding that there must be a renewed commitment by our mayors and other local officials to the well-managed and ethically run housing authorities which, as I have come into this Department, I am sad to say is not always the case, but often we see too often the fact that public housing agencies are either mismanaged or tremendous amounts of corruption have occurred and as that happens, it does avoid the opportunity to deliver our services to the people in need.

So we should not just have compassionate intentions, but we should also expect compassionate results and outcomes.

I look forward to working with the Congress on the many issues facing the Department of Housing and Urban Development.

You have funded two important commissions, the Millennial Housing Commission and the Commission on Affordable Housing and Health Care Facility Needs in the 21st Century. The Department is looking forward to the recommendations of both of these commissions.

This agency is committed to continuing a strong relationship with this subcommittee so that together we can make the Department an efficient and effective fighter on behalf of America's housing needs.

So thank you for having me, and I look forward to your questions.

[The prepared statement of Hon. Mel Martinez can be found on page 72 in the appendix.]

Chairwoman ROUKEMA. Thank you, Mr. Secretary.

Certainly you have laid out a good foundation for a wide spectrum of inquiries and questions and information, additional information, for this Committee.

I am not quite sure what you outlined with respect to my question regarding whether or not the Section 8 contracts in truth did represent an increase, and we will not spend a lot of time on that, but I hope you will give documentation on that.

Mr. MARTINEZ. We will certainly do that. Let me just give you just a flat assurance today that it is in fact an increase.

Chairwoman ROUKEMA. It does.

Mr. MARTINEZ. There are no reductions in our Section 8 programs.

Chairwoman ROUKEMA. Would you please provide the data on that?

Mr. MARTINEZ. We will do that.

Chairwoman ROUKEMA. I would appreciate it.

Mr. MARTINEZ. We will certainly do that. We would gladly do that.

Chairwoman ROUKEMA. Now I know other Members are going to have a lot of questions on a whole broad range of specific issues. But since I was perhaps the only one—no, I am sorry, Mark Green attended yesterday with me—conferences on the subject of faith-based groups and their application, their provisions for public service in all areas, and Mr. Green and I specifically were with a group that was interested in the housing questions.

So I am going to ask you a couple of questions with respect to their concerns, these faith-based groups, and how they would like to become involved. And I would like to direct the questions to you now.

They are particularly concerned about the Empowerment Zones, and I think you have made reference to that, in the community renewal areas, and specifically the mismanagement—and I think you alluded to this—in housing with respect to these housing authorities where we have substandard homes and closed and vacant houses in neighborhoods that are really pulling down the quality of the neighborhoods. I do not know what you are planning to do on that and how that is related to your identification of mismanagement of the public housing authorities.

Mr. MARTINEZ. Well, the mismanagement issue——

Chairwoman ROUKEMA. And by the way, can some of these faith-based groups be partners in a public-private partnership with you in that regard?

Mr. MARTINEZ. Well I think you open a whole host of very interesting questions. And let me say first of all that as it relates to the whole issue of faith-based partnerships, I am very, very keen on this. This is something that really hits at who I am and where I have been.

I was a product of a faith-based program. I was in foster homes for 4 years, and Catholic Charities took care of me, in partnership with the Federal Government. So it is an example of something that might have worked reasonably well for me, anyway.

The fact is that we can do a lot to help revitalize our communities in partnership with faith-based organizations. And I believe that what your question is is about the utilization of FHA-foreclosed homes——

Chairwoman ROUKEMA. Yes.

Mr. MARTINEZ. ——which particularly become a blight on communities if they remain for periods of time unused.

We now have a 2-week window when these homes go on the market that faith-based and community not-for-profits can apply to utilize these homes or to put these homes back into utilization and be the ones to offer them to the marketplace.

Chairwoman ROUKEMA. Excuse me. What do you mean by a 2-week window?

Mr. MARTINEZ. Well, these homes go into the market as resales so that we can put a homeowner back into the homes and not have them be a boarded-up blight on the neighborhood.

At the outset of that, there is a 2-week period of time when community organizations can come in and apply to get the house and have an opportunity to forge a partnership with HUD and bring people back into the house.

Chairwoman ROUKEMA. Why such a limited period of time? That question was raised with me.

Mr. MARTINEZ. That is a very good question. And, you know, as we get into this whole issue, frankly on Monday, the person that is going to run our faith-based office arrived on the job. So we are delighted that the person is there, and we look forward to getting this program off and going.

But it is those kinds of issues. Why 2 weeks? Why not have a larger period of time? Are we doing enough proactively to bring them to the table? And are we maybe even packaging a whole street or an area where we can transform a community?

There are many good examples of things like this working. I harken back to Philadelphia where Kenny Gamble and Reverend Lusk are doing this to revitalize areas of that community. And these are both community and faith-based groups. So already things are happening.

What we are doing is first and foremost, we are doing an inventory of what is in the current regulatory climate that artificially hinders or does not assist in creating partnerships with faith-based groups. One of them may be the fact that it is only a 2-week window. Maybe it should be 6 weeks.

Now there is an interest in moving these homes into ownership in a rapid fashion, but there may be a way that we can work with faith-based groups. The point is, there is much that can be done.

I was encouraged by what took place here yesterday by the people that seemed so energized with the possibilities of what the President's initiative can bring forward.

We at HUD are very committed to the program. We have a $5 million item in our budget for our Faith-Based Initiatives Office and to all the programs that we will begin to put under there.

The fact is that we hope that it will be something that will invite new partners in the revitalization of communities. And I often say that, you know, there are some who believe that Government has all the answers or those who believe Government has no answers, and there is really a third way, which I think the President was articulating, which is a way in which we can bring the best that Government can bring to bear while partnering with those in the communities that know them so well to bring about the best results.

Chairwoman ROUKEMA. Very good. Thank you. And I did note, and it was news to me, that there is a HUD program, an audit for inter-faith opportunities that is scheduled for completion by July 29th. So we will be looking forward to that.

Mr. MARTINEZ. Thank you.

Chairwoman ROUKEMA. That was new information for me. Thank you.

Mr. Frank.

Mr. FRANK. Mr. Secretary, a couple of questions about what I think are really decreases in funds available rather than increases, and let's get specific.

What is the estimate that HUD has for what public housing authorities are going to need for the rising cost of utilities?

Mr. MARTINEZ. The estimates that we have, Congressman Frank, in fact show a decrease, which is inconsistent with——

Mr. FRANK. To pay for utilities?

Mr. MARTINEZ. Yes, sir. What we do at HUD——

Mr. FRANK. Well then can I ask why——

Mr. MARTINEZ. Let me finish, if I may.

What we have done at HUD, which is what we are mandated to do, is that we follow Department of Energy indicators as we prepare our budget on what utility costs are going to be for the coming year.

The recent rise in utility costs were not part of the Energy Department's forecast that we were provided as we were preparing the budgets. So there is clearly disconnect, because I think you and I both know that utility prices are going up.

Mr. FRANK. Yes. So——

Mr. MARTINEZ. So let me say also——

Mr. FRANK. Let me—when I asked you what HUD's estimate is, this is a serious problem. Because I have to say when the budget comes to the New Bedford, when they get the utility bill at the New Bedford Public Housing Authority, I do not think they can say, "I am sorry, but the Energy Department told HUD this was not going to happen, and here is a note from my teacher."

Here is the problem. You say on page 3, accurately here, "the $150 million increase in the operating budget can be used by local housing authorities to fund their needs, including the rising costs of utilities." So you agree there are going to be rising costs?

Mr. MARTINEZ. Well——

Mr. FRANK. The problem is that you also say that money can be used to pay for the Public Housing Drug Elimination Program, which is $309 million. If you assume half of the Public Housing Drug Elimination Program, that takes up all of that money, and there is nothing left for utilities. In other words, you are using a $150 million increase to pay for the Public Housing Drug Elimination Program, minus $309 million, and whatever we get in increase in utilities, which is why I do not think it is a real increase.

Mr. MARTINEZ. Congressman, you are correct in that it is not a real increase, because we had $309 million and we are only funding an additional $150 million.

The utility cost—I mean, I know it does not make a whole lot of sense. But, you know, I am new to the ways of Washington, and I have to tell you, it is perplexing to me why the Department of Energy would tell us and why we would be mandated to follow their guidelines in preparing our budget.

The fact is that we are constrained from——

Mr. FRANK. All right, I appreciate that, Mr. Secretary, and I think they did a good job raising you in that foster care, so this is not about you personally. I give them a lot of credit.

I would note, by the way, that the ability of Catholic Charities to work with the people on foster care and get Federal help preexisted. We do not need this new program to have that happen. So you are proof that we do not need a new program.

So it is not you personally. But what you are acknowledging is that the HUD budget for public housing, unrealistically through means beyond your control, assumes a decrease in an area where we know there is going to be an increase.

Mr. MARTINEZ. Well let me say——

Mr. FRANK. But by the time you get through with the $150 million taking care of some of that, and then you get into the Public Housing Drug Elimination Program, that is going to be a real decrease for everything else in the Public Housing Program.

Mr. MARTINEZ. We have this year, with current funds, funded $105 additional million of dollars without additional appropriation to deal with the utility costs for the current year.

Mr. FRANK. I understand that, Mr. Secretary. All I am saying——

Mr. MARTINEZ. What I am saying to you is if we did it this year, we will try to do it again next year, as the need arises and as——

Mr. FRANK. So in other words, you are telling me that you think we may very well need a supplemental budget for public housing?

Mr. MARTINEZ. No, no, no. I did not ask for——

Mr. FRANK. Out of other funds. But here is the point. You say you found more. I mean, where is it going to come from?

You are acknowledging that, because of the Energy Department, not yourself, you have in effect underfunded utility costs for public housing, which means that the $150 million you cite is an increase and will in fact not be an increase if they were to do even half of

the Public Housing Drug Elimination Program, and then you would have nothing left for utilities.

Mr. MARTINEZ. No. I am not going to concede to you that the estimates from the Department of Energy are completely wrong. They may or may not be wrong. We will see. They are projections.

Mr. FRANK. Excuse me, but you are the one who brought them up.

Mr. MARTINEZ. No. What I am saying is that we used what they gave us.

Mr. FRANK. Do you think they are right or wrong?

Mr. MARTINEZ. At this point, Congressman, I am not sure. And the fact is——

Mr. FRANK. What are——

Mr. MARTINEZ. ——that what we did, when the problem arose a few months ago in California particularly and in the West Coast, we responded to it.

We have directed $105 million to help housing authorities in problems with utilities.

Mr. FRANK. I want to move on to one other subject. But I think the predictions are that we are going to need some more money.

Chairwoman ROUKEMA. Your time has expired.

Mr. FRANK. You gave yourself some additional time.

The second one has to do with the Section 8s. The additional number of units you mention in your budget submission is 97,000 total housing certificate fund, 2002 versus 2001, 97,000.

The problem is that 160,000 more units have to be given, according to your budget submission, for the Section 8 contract renewal. That is, to just continue our commitment on the existing ones, the contract renewal, takes 160,000 units.

In fact, that makes a decrease of 63,000, which is in your budget submission:

Tenant protection assistance: minus 10,000;

Incremental vouchers: minus 45,000;

Non-elderly disabled: minus 8,000.

You forgot to fill it in, but it is in the next column.

In other words, the total increase is 97,000, but 160,000 of those units go to the Section 8 contract renewal, which means that, for example, with regard to the disabled, there are no units set aside for them, and they are going to have to compete with other units in a decreased pool once you take out the Section 8 contract renewals.

Mr. MARTINEZ. Congressman, although we did not include any additional units for the disabled, we will find a way to fund them for them. We are receptive to their needs and want to work with them on that.

But let me say that additional Section 8 vouchers is not the key crucial problem in the Housing and Urban Development Department. We have a huge unabsorption rate. There are millions of vouchers—not millions I should say—but we estimate about 300,000 families, about $2 billion of unused vouchers last year alone.

Mr. FRANK. Mr. Secretary, on that I agree with you.

Chairwoman ROUKEMA. We must conclude this.

Mr. FRANK. Well I just want as much time as the Chairwoman had.

I just want to say, Mr. Secretary, that I agree with, and that is why the absence of a housing production program for affordable housing is a very significant issue.

Mr. MARTINEZ. Because, you see, that is a simplistic answer to the problem. The problem really is rooted in the mismanagement of the largest housing authorities who do not do a good job.

Mr. FRANK. Oh, I think you are being very unfair to them. The economics are the problem here.

Mr. MARTINEZ. No. We find that even in the most economically difficult areas, like in New York, not a low-rent market, their public housing authority in New York utilizes all of their vouchers. So they are a good example of how good management in a difficult market can make them work.

Mr. FRANK. That is very unfair to housing authorities that are trying very hard with unrealistic rent levels in Boston and San Francisco and elsewhere.

Chairwoman ROUKEMA. We will have to go on now. And I would like to ask all of the Members of the subcommittee to be very mindful of the time limits, and I am going to be very strict with respect to the time.

And now we have Chairman Oxley. Chairman Oxley, are you ready for your questions?

Mr. OXLEY. Yes, Madam Chairwoman.

Chairwoman ROUKEMA. All right. Thank you.

Mr. OXLEY. Thank you, Madam Chairwoman.

Mr. Secretary, one of the areas of the proposed budget on HUD deals with the elimination of the Public Housing Drug Elimination Program, which as you know provides local grants to housing agencies to help reduce drug activity in the public arena.

I was a long-time Member of the now-defunct Committee on Drug Prevention chaired by Charlie Rangel, and we had numerous hearings in regard to the anti-drug programs. And I understood that $19 billion is now being spent at the Federal level overall in drug enforcement and drug interdiction and the like.

Obviously the question occurs: Why, in a period where we continue to have difficulties with drug abuse, in many cases new drugs are being found and used illicitly, that obviously HUD comes into potential criticism for elimination of that particular program and what was the thinking behind that, and what were the policy goals?

Mr. MARTINEZ. Mr. Oxley, when I first heard of this program, it was something I thought I would be very supportive of. I have a long history in my career in local government of fighting drugs and working with people not just in the enforcement end, but in the treatment end and trying to find—working with youth and things of that nature to try to eradicate communities from the blight of drugs.

What I found upon review is that this is a program that in one place miscasts the agency in the role of law enforcement and misplaced its responsibility.

I find an agency where we have management challenges in grant administration. What this new program has done—you know, an

agency also that has gone from 50 to about 350 programs in the last 10 years or so. As the number of programs has proliferated, our ability to properly manage them has decreased.

And as we have done that, we now find that in this Drug Elimination Program there are grants going out to things that are really far afield from the intent of Congress and far afield I would say from the fight on drugs. Things like foreign travel. Things like computers; renovating of kitchens for kitchens that never existed.

But it is not about only thinking that, because it has been poorly administered or maybe misguided in some places that not some good things have occurred, and probably some good things in some places have taken place. But what I believe is important is that we focus HUD on its core mission so that we can do that which only HUD can do and do it very well.

And then we have the Department of Justice, the Drug Czar, local law enforcement, and all of the tentacles of our Federal Government as it relates to the drug fight that are really better equipped to bring about the types of improvements in the lives of people as it relates to drug use that really we see are more effective.

The fact is that I personally do not think that it is appropriate to believe that—and, you know, I hear this comment often made, "Well, the police do not even go into the housing projects." You know, they just do not even go there. Well, why do they not go there? And why should they go there? And should not we expect that even the poorest in our communities be given the same level of law enforcement protection that people in the nice neighborhoods would have?

So what I would say is that we need to focus on stronger partnerships with local law enforcement, working with community groups, of faith-based organizations to ensure that we do not have addiction and that we have programs to help people out of addiction.

In addition to that, I have directed our Legal Department, our General Counsel's Office in cooperation with the Department of Justice to pursue aggressively our one strike you are out policy where we move people out of public housing if they are involved in drug use or drug abuse in their units.

The fact is that there is a myriad of things that we can do. But just another program and $309 million is not necessarily the smart way to go about it.

There are clearly good things that have been done with this money. There are clearly a lot of misuses of this money. And bottom line, one less program to administer.

If the Congress is inclined—and I know many of you, Congressman Frank may be very much inclined to want to restore the funding—I would plead with you to restore it as part of the grants to local housing authorities and not as a separate program. Give us one less program to administer. Because if it falls as general grants, some of the silly things that have been done with this program would not be done. It would be a much easier program to police and to administer from our standpoint.

Mr. OXLEY. Well, in fact if I could just close with that. It is interesting. The HUD IG report, which I have looked at, provides a number of examples of how the funds were misused. A creative

wellness initiative, where funds were spent "to provide cosmic cycle updates on the spiritual awakening and transformation of the global world body," whatever that is.

Mr. MARTINEZ. We stopped that grant, by the way.

Mr. OXLEY. And another $860,000 to the National Institute for Medical Options to provide programs of God, God as typing.

I rest my case and I yield back.

Chairwoman ROUKEMA. Thank you. I thank the Chairman. Again, we have to be very mindful of our time limits, but I do appreciate the question and Secretary Martinez's ample answer.

Yes. Now we have Congresswoman Barbara Lee.

Ms. LEE. Thank you, Madam Chairwoman.

Good morning, Mr. Secretary.

Mr. MARTINEZ. Good morning.

Ms. LEE. Good to meet you.

Mr. MARTINEZ. Thank you.

Ms. LEE. As you may know, my congressional district includes Oakland and Berkeley, California. The Bay Area is experiencing a very serious affordable housing crisis. The economic surge, particularly in the high tech industry, has made the situation even worse so that at every income level, people are experiencing this in a very painful way, and there is a critical housing shortage.

Last year, the Congressional Black Caucus conducted a housing summit, and I would like to forward to you some of those recommendations. Unfortunately, Northern California is really only the epicenter of this crisis, and the Nation is beginning to feel the same kinds of circumstances that we are.

One of the recommendations that came out, of course, of the summit was the creation of new housing. And you were quoted somewhere as saying that you really did not want to consider the addition of new housing production at this time.

And I am wondering if you said that for a reason or what your reason was, whether you believe that we did not need more affordable housing production, or you were unsure about the best way to produce more housing.

Mr. MARTINEZ. The answer to that is, Congresswoman, I am very much aware of the critical need for additional housing, and the numbers obviously are clear. We have worst-case housing scenarios where people across the United States, and more acutely than anywhere probably in your district, and neighboring to your district.

My answer was based on two facts. Number one, the Millennial Commission on Housing is currently meeting, and I would like to know what ideas they are going to bring to the table. That will be happening in the next budget cycle, and I would prefer to defer until their study comes back and brings some new ideas to the table of how we might best approach the problem of production.

In the meantime, we are doing some things. We are not just content with the level of housing currently available. The FHA multifamily insurance increased by 25 percent for the first time in almost 10 years, by the way, we think is going to generate additional housing construction.

But another thing—and this is much too subtle, and it is not a new program, but the fact is that it just might work. We at HUD

need to be better generators of production even within the current programs that we have.

As we look to the HOME program or the HOPE 6 programs, these are homes that we currently have available that might increase production. And the fact is that oftentimes we find the private sector development industry unwilling to partner with HUD or move ahead in affordable projects because of the difficulties in dealing with our agency and the intractability of it.

Ms. LEE. But Mr. Secretary, let me just ask you then about the $3 billion from FHA and Ginnie Mae in terms of their net profit. What is the problem with reinvesting that $3 billion into new housing production?

Mr. MARTINEZ. Well, I would differ with you. The FHA does not create a profit as such. These are premium payments, and so it is a question of how much is an appropriate premium that should be paid into the fund.

But there clearly are, you know——

Ms. LEE. OK. It is my understanding it is a surplus, not a net profit.

Mr. MARTINEZ. Correct. And it is a question about how much the surplus really is. But in any event, I think that there need to be new ideas on the table of how we generate the kinds of production program that will be effective.

Good things have been done in the past on housing from the Federal level. But I personally would prefer to give us a year's time where we can bring in some new ideas into HUD, some management reform, some things that hopefully will make us work a little smarter, a little better before we are given a new program to administer.

So my hope was that in combination with the things that we are currently doing to improve the circumstances and weighing for the Millennium Commission report and giving this new Administration a year under our belt that we would be in a much better position to look at a production program.

Ms. LEE. So, Mr. Secretary, what happens with this surplus or profit or additional money that is sitting out there?

Mr. MARTINEZ. Well, the surplus for FHA is an insurance fund. And it is simply there in the event that we should have a horrible downturn in the economy and there should be a huge number of foreclosures and the FHA insurance would be tapped. And so this is a reserve fund for that.

At some point, a humongous reserve is unnecessary, but I am not sure that it is money that is just readily available today. The GAO is still doing studies on the amount of that surplus.

We currently have a 2 percent limit—I am sorry, a 2 percent premium. It might be better to have a reserve of 3 percent. That might be a safer, more prudent way to go. That would reduce our surplus somewhat.

It is not found money. It is part of what makes FHA work in the event that the economy——

Ms. LEE. Then you say we do not have any resources for housing production, affordable housing production at this point?

Mr. MARTINEZ. That is my impression.

Chairwoman ROUKEMA. Congresswoman, we recently—when was the hearing? Back on March 20th we had a hearing on this subject and CBO—it is a good question that you are asking, and we will go back and review what CBO said. But CBO has stated it is not a surplus.

Mr. FRANK. If the gentlewoman would yield.

Chairwoman ROUKEMA. Yes, Congressman Frank.

Mr. FRANK. But it was also clear from the three agencies that were there that it is a significant amount of money extremely unlikely to be called upon. They said that it was a very sound fund, and the possibility that—there is just not any likely degree of downturn that would wipe it out. So there is money available.

Mr. MARTINEZ. I would agree that it was a sound fund.

Chairwoman ROUKEMA. It is something that we can as a group review again, and we would like your advice on that, particularly based on what the CBO analysis is as well.

Mr. MARTINEZ. And I think it would be very prudent for us to have a thoughtful discussion.

Chairwoman ROUKEMA. Good question.

Mr. MARTINEZ. Because it is a very, very—you know, it could be a dangerous thing to do.

Chairwoman ROUKEMA. Which is why we had the hearing.

Mr. MARTINEZ. And I would like to have the Federal Housing Commissioner confirmed and on board so that I could have the benefit of that person's advice as well as we go forward into that field.

Ms. ROUKEMA. Very good.

Ms. LEE. Madam Chairwoman.

Ms. ROUKEMA. Yes.

Ms. LEE. I am just saying, I thank you for responding. And I just think that wherever we can develop new affordable housing where production can be created, we should do that. And we should not allow these resources to just sit.

Ms. ROUKEMA. Well, it is, if not controversial, there are wide differences of opinion. But it is appropriate for us to review that again.

All right. Thank you.

Now we have the Vice Chairman of the subcommittee, Mr. Mark Green.

Mr. GREEN. Thank you, Madam Chairwoman.

And Mr. Secretary, let me join with others in welcoming you here. I very much look forward to working with you. I think there are going to be a lot of things that we can work on very closely together.

I was also delighted to hear of your personal support for the faith-based initiative in housing. My own opinion is that the housing sector is probably the sector that most lends itself to working with the faith-based community.

In the State of Wisconsin, our Housing Finance Authority has been working closely with the charitable sector for 14-, 15 years to great success. And so I am thrilled about it, and I think it presents wonderful opportunities for all of us.

Given the brief time, I will ask you two specific questions. The first one deals with FHA loan limits. You recently announced your

support for increasing multi-family FHA loan limits. I applaud you. I think that is the right approach to take and perhaps overdue.

Would you also support a mechanism that would allow for adjustments in those loan limits as inflation changes?

Mr. MARTINEZ. Well, I think that would be prudent. I think that one of the problems we had is by not moving those loan limits for 9 years that we have had in a situation, as Congresswoman Lee was pointing out in her community where not only the land costs have gone up astronomically, but construction costs have also gone up significantly.

So I think they should be market-adjusted and I think they should be area-adjusted as well. I think they should be sensitive to the different market needs in different parts of the country.

Let me just say on a personal note, in moving from Orlando, Florida to the Washington area, one knows that market prices are different as it relates to housing across the country. Trust me.

Mr. GREEN. You are learning the hard way. I think that is good news. I look forward to working with you on that.

And then the second area of interest that I have personally is in the development of some kind of housing impact analysis, new rules and regulations, and even legislative proposals, what would you think of a proposal that would require agencies to consider the impact on housing affordability when they are writing new regulations?

Mr. MARTINEZ. Oh, I think that would be very good idea. I think that we can always see regulations as a good thing, but at the same time they can have very unintended consequences, including increasing the price of housing. So I would think that would be a great idea.

Mr. GREEN. Another area where we could work closely together.

Mr. MARTINEZ. Absolutely.

Mr. GREEN. Thank you, Mr. Secretary.

Mr. MARTINEZ. Thank you very much. I appreciate that.

Mr. GREEN. Thank you. Thank you, Madam Chairwoman.

Ms. ROUKEMA. I thank the Vice Chairman.

Now we have Congressman Michael Capuano.

Mr. CAPUANO. Thank you, Madam Chairwoman.

Mr. Secretary, thank you for coming today. And I want to start out before I go the other way congratulating you on some of the programs that you propose.

I like the HOME stuff, home ownership stuff. I like the HOPWA stuff. I like the AAM changes. I like the lead paint stuff. I like the FHA limits.

Mr. MARTINEZ. Thank you, sir. I appreciate it.

Mr. CAPUANO. That is about it. The rest of this——

Mr. MARTINEZ. Well, there would not be a discussion if we did not have some disagreement I suppose.

Mr. CAPUANO. Well, we've got lots more. I was stunned earlier when I saw the initial budget proposal, the three-page document that we got in the Budget Committee, all of three pages. It was great, very informative, very thorough. And I am even more stunned today. I did not think that was going to happen, but I am.

You told us a little bit about yourself, and I have read a little bit about you, and I appreciate how far you have come in your situation.

My mother still lives in elderly public housing. She does today. My brother lives in a three-family home with three generations on each and every floor. I live in a two-family home. So that is who I am.

And I do not even know where to begin. The drug elimination stuff, I do not disagree, if you want to roll it into a different grant, that is administrative stuff. If you think there is stuff in there that has been done wrongly, you should chase every one of them, and you should come to us and say we do not like this, this, and this about what has happened with the drug elimination grant. And my guess is most of us would probably agree with you and chase those guys who did things wrong, maybe add some requirements.

But to simply cut out $300 million of money that goes for the most part—let's be serious—to hire public housing police is insane, especially when you want to look at the budget as a whole. They cut out millions of dollars for the COPS program. You had better talk to the people at the Justice Department if you want to talk in general.

I do not know about your neighborhood. In my neighborhood and everyplace I have ever known, many local cops will not go into public housing property, or if they do, it is their last priority. That is why we need public housing police officers.

That is just the beginning of it. We get into other things like the public housing capital improvements, a $700 million cut. It is not just poor people that some people do not care about. I understand that. I understand there are philosophical disagreements. But we are also talking about money that—you did a good job on HOPWA.

Guess what? Some of that money goes to rehab, the HOPWA programs that have been built in the past. Some of that money goes to rehab some of the senior housing that we talk about. Some of that money goes to rehab some of the disabled housing we talk about.

And yet there is nothing here that somehow tells me we are going to get it. What I am hearing today is that somehow, OK, well, they did not spend the money. I know that you have done capital projects in the past. You do not do them in a year, and in a public agency, you do not say, well, I might maybe get the money. So, therefore, right now I am going to bid out. I am going to plan and then bid out a project that I do not have idea if we are going to have the money for 2 years from now, or 3 years from now, and then get it done.

It takes years. And if you are a smart, good public manager, you do not put a single pen to paper until you know that money is there. That is why that money is not spent. And to cut the program this year. I understand you will not see public housing capital cuts this year, but you will in 2 years and 3 years and 4 years and 5 years, when there are no programs or no plans that have been in the pipeline during that period of time.

So we talk about that. I want to talk about the unused vouchers. Mr. Frank and I come from a similar area. We abut each other. Guess what? I do not disagree with you that some of those are ad-

ministrative problems. I think you should fix them. I think you should come to us and say we have administrative problems. They are not getting them out. Great. I will fight with you, alongside with you, to get every one of those vouchers out. And anybody who is not doing their job, together we will go get them.

But there are a lot more problems than just that. At least in my district. Guess what, landlords do not want anything to do with Section 8 housing anymore, because they do not like the annual renewals. They are not sure they are going to be able to have it next year. Are they are going to have to get new tenants next year, or within a few months? Number one.

Number two, the rent levels in my district are astronomical, and we did take some steps last year to address that, but not near enough. Landlords, why should they rent to people, why should they take a Section 8 certificate when they are not sure the program is going to be there next year, when they can get more money on the outside, and now this year you come and you reduce your reserves?

They are not even sure you are going to have the money next month, never mind next year. If I were a landlord and I was dealing with a lot of Section 8 people, I would not be anxiously involved either unless I had some big heart and I did not care about the bottom line.

And the last thing I want to talk about is the budget.

Chairwoman ROUKEMA. Excuse me, Mr. Capuano. You have some 30 seconds left.

Mr. CAPUANO. Yes. And I intend to use them, Madam Chairwoman.

Chairwoman ROUKEMA. Do you want to use that time for yourself——

Mr. CAPUANO. Oh, yes I do.

Chairwoman ROUKEMA. ——or do you want Mr. Martinez to be responsive?

Mr. CAPUANO. Well, I might ask him a question in a minute. We will get there. It is a long question, but we will get there.

Ms. ROUKEMA. Well, I am sorry, but your time will have long run out.

Mr. CAPUANO. Well, but it has not yet, Madam Chairwoman. I just took 10 more seconds answering your question. And, you know, we will do whatever you want, but I thought that I was allowed to use my time as I chose.

Ms. ROUKEMA. You have 33 more seconds.

Mr. CAPUANO. Thank you, Madam Chairwoman. I appreciate that.

Mr. Martinez, you talk about budgeting. I guess the conclusion—I will just jump to the conclusion. We will jump the rest of the issues, because as I said, there are too many of them.

You talk about administration and management issues. I do not have any problem with addressing all of your concerns in administration. If you have them, bring them to our attention. We will work together to try to straighten them out. And guess what? When you cut these kinds of monies—$700 million for capital, $300 million for drug elimination, $40 million for disabilities, not talking about utilities, and you add $150 million, that does not work.

And guess who gets hurt? The very same people that your rhetoric says you want to help. People get hurt, not programs. If you want to get at bad administration, come to us, ask for the help. We will be happy to do it. And I guess for a question, I guess you should respond to that.

Mr. MARTINEZ. Well, I am not sure what your question was, but I will try to respond to all of it. And I admire your passion. I think that it is great.

Ms. ROUKEMA. If you can take less than 5 minutes.

Mr. MARTINEZ. I will be very brief in my response. I will try my best. I will try to come back to you with more specific responses.

I think that if I thought, as I know you do, that somehow what I have done with this budget is going to cause your mother's house to be somehow unmaintained in the coming year or at any point in the future, that I would be equally passionate.

The fact is, I am certain that the cut of $700 million in the capital fund in this year's budget will have no impact on future maintenance for the foreseeable future. And if more money were to be needed at some point down the road, I would be the first one to be here asking you for it.

The fact of the matter is that we have a study from Apton Associates that tells us that $2.3 billion request, that is enough to meet all of the current year needs for housing authorities across the country.

That is not to mention the over $5 billion unspent, unaccrued, not in the pipeline funds that are still in the fund for public housing maintenance into the future. It would take them, at $2.3 billion a year, almost 3 years to absorb what is already there plus what is coming from the year 2001 before they would get to the need that you anticipate that is now going to be somehow a dire emergency.

The fact is that we just need to have a better explanation to you of what we are doing, because it is not going to have the dire consequences that I think you anticipate.

Ms. ROUKEMA. All right. Thank you.

Congresswoman Kelly.

Mrs. KELLY. Thank you, Madam Chairwoman.

Mr. Secretary, I understand that there may be as many as 719 FHA-insured 203K rehab loans in the New York City area that are currently in default.

Apparently the properties were sold to a number of non-profit organizations involved in fraud activity, and most of the rehab work was just really never completed.

Furthermore, 3 days before the change in Administration, the former HUD secretary entered into a Memorandum of Understanding in response to the issue. I am concerned about that. So I want to know what the department is doing to address the immediate problem in New York.

Mr. MARTINEZ. Congresswoman Kelly, this is a serious problem. And it is a shame that through this fraudulent activity, which just is out-and-out horrible fraud, it has had a devastating impact on the affected families and the neighborhoods surrounding them.

And we are going to try to, number one, do better in the policing of these types of incidents where fraud is so rampant. But the en-

tire issue is under comprehensive review by the Department. I am trying to decide whether we want to live by that Memorandum of Understanding and the component parts of it. It was a last-minute action by the prior Administration.

We are looking to detail a senior project leader to New York to the HUD field office to work full time on this issue with the local staff, the local staff being the most familiar with the situation, and we are going to try to keep a very close eye on where we should go with this problem and finding a resolution for it.

There is no question but that this kind of fraud has created tremendous hardship on a number of people, and it is a huge and expensive problem. It was anticipated at a very significant number for us to try to work out of this problem. It probably is going to be even larger yet. And unfortunately, it was fraud that went on for several years before it was found out. And, of course, now the problem is to account for the seriousness of the problem and the payoff, which is going to be very substantial.

Mrs. KELLY. I wonder if you would be good enough to try to describe a little bit more about what your department is going to do to move forward to try to prevent further fraud in that area.

Mr. MARTINEZ. Well, more careful policing of these grants. I mean, I am being told that our staff at HUD—and this is the professional staff at HUD—has been dealing with this in a very serious way and trying to find what went wrong here and how could that not ever happen again.

My greatest fear is that it would happen on my watch, frankly. And with a department as vast as this, there is no question that these things do happen from time to time.

But I am not sure if the Memorandum of Understanding will do what is right for the affected families and also in terms of public policy.

So it is a very complicated question, and I am afraid at this point I am still not ready to make decisions on how we are going to approach it.

Mrs. KELLY. If every one of these properties was foreclosed and conveyed back to the department, do you have any estimation of how much the potential losses to HUD would be?

Mr. MARTINEZ. It is over $140 million is our estimate of it. And that may ultimately be the answer to the problem. But $140 million.

Mrs. KELLY. Over $140 million?

Mr. MARTINEZ. Over $140 million.

Mrs. KELLY. Just in New York alone?

Mr. MARTINEZ. Just that one problem.

Mrs. KELLY. I personally have been approached by many, many people, because we need more affordable housing for not only seniors, but for the young people of the Nation. And this kind of fraud is extremely damaging to our whole housing structure.

I would hope that your department would get on top of this and do something as quickly as possible to rectify the situation, and I am pleading for especially New York, but for everyone else in the Nation, because this has been a fairly widespread problem, as I understand it. I am not sure we even know the depth of it.

Mr. MARTINEZ. No, we do not. And it is $140 million of funds that could go to so many good things, as Congresswoman Lee was speaking earlier, the FHA fund. This is where that money will ultimately be coming from.

So it is for these kinds of things that we need to have that reserve.

The bottom line is that this Department—you know, when I am talking about management, that sounds so unsexy. You know, to talk about managing the Department well, how is that helping people? Well that does not sound good, because a new program does, and cutting drug elimination.

I mean, look. I am a drug fighter. I mean, I know what a blight it can be on communities. But we have got to do it effectively. It is not good enough to throw money at a problem and mandate another thing for HUD to manage without the fact that we really need to look at the outcomes. Sometimes the outcomes are very ugly at HUD. We need to do better. I agree.

Mrs. KELLY. Thank you very much.

Ms. ROUKEMA. Secretary Martinez, I would like to join Mrs. Kelly in that statement. But I wonder if you would follow up with some written documentation for us and give us some information as to who will be in charge of this kind of a reform within the Department.

Mr. MARTINEZ. I will do that.

Chairwoman ROUKEMA. Thank you.

Congressman Watt.

Mr. WATT. Thank you, Madam Chairwoman.

Thank you, Mr. Martinez, for being here. I guess I should give a presumption to anybody named Mel, and I will give you that presumption.

I want to talk about the impact of Section 8 vouchers. And I am a little concerned that you have the attitude that the only problem with Section 8 vouchers and the non-use of Section 8 vouchers is mismanagement or lack of management of housing authorities.

And I want to assure you I am aware that there are housing authorities that mismanage, so I am not defending mismanagement.

But I do want to give you a different perspective on this, and I give you the perspective, because I think we have decided as a matter of national public housing policy that Section 8 vouchers are the greatest thing since sliced bread. And in some communities they are.

Typically, they are communities such as some of the communities in my Congressional District, where population growth is not there, where basically people are moving out and demand is being reduced. People who own housing use Section 8 vouchers as a good deal.

But in communities—and I have some of those communities in my Congressional District. In fact, the week before last, I methodically went through the district talking about the impact of Section 8 vouchers and got differing impacts. I got communities that the population is declining or not growing. There is oversupply of housing as a result, and all of those owners are out there actively seeking to use Section 8 vouchers.

Then I represent the City of Charlotte, which is a high growth area like Ms. Lee's area out around Oakland. And the population is booming. You cannot build housing quick enough to respond to the demand that is out there.

And to take a Section 8 voucher to a community like that where there is no excess supply is just to insult the owner of that property, because they can get a lot more in the private market than they can get than the Section 8 voucher is valued for.

So the impact in Charlotte is just the opposite of what it is in Winston-Salem or Greensboro or Davidson County in my Congressional District. And basically, the impact in Charlotte is this. Section 8 vouchers can only be used in vulnerable transition minority communities.

You go into any white community in Charlotte, there is nobody taking Section 8 vouchers. So Section 8 vouchers are having the effect of further segregating an already segregated community.

People are coming out of public housing under the HOPE 6 renovations. They are downsizing. They are coming out of public housing. They are taking Section 8 vouchers and they are going into basically vulnerable minority communities that are struggling to maintain the character of a community.

And those people are not racist, but they are not classist, but they are saying, look. You are dumping people out of public housing on us in disproportionate numbers, people who have no history of even owning a lawnmower. They are not going to maintain the grass in this community. The landlord's not going to maintain it, because he does not give a damn. He is an absentee landlord.

So you have got to understand, Mr. Martinez—and I do not have a question—but this is not only about mismanagement of the Section 8 voucher program. This is a serious problem that can only be addressed in some areas by supplementing the Section 8 vouchers to make it possible for this adverse effect not to occur.

And that is all the point I want to get across to you. I do not have a question. I just want you—but if you are going to characterize this as just a mismanagement problem, I think you are doing public housing agencies throughout this country a severe disservice.

Mr. MARTINEZ. No. Let me clarify that. Because I do not believe it is just a mismanagement problem. But when we look at the absorption of Section 8 vouchers, and when we see those that do not absorb their Section 8 vouchers and utilize them, what I am told—and I am new to the Department—what I am told by the staff is that, year after year, some of the same, extremely large housing authorities around the country are the ones that seem to have—that are also a management headache in a number of ways, are also the ones that return back unused vouchers.

Mr. WATT. But there is an explanation for that that is different than the one you are giving, and that is that those are the communities that in some areas are tremendous growth areas, and the impact that I just described to you——

Mr. MARTINEZ. I will give you the statistical evidence rather than the anecdotal evidence. That is not to say that that is the whole problem.

I think you have identified correctly the gamut of problems. And I think that what you are suggesting in terms of potential answers is also correct. We need to look at it holistically. And, you know, Section 8 vouchers, while it is a national program and we fund it out in formulas throughout the country, it may not be for every community.

Ms. ROUKEMA. Excuse me.

Mr. MARTINEZ. We have programs that sometimes work very well some places and not as well in others.

Ms. ROUKEMA. Excuse me. We are over 2 minutes overtime here. But if there is further discussion of this or if you want to submit Secretary Martinez something for the record, and certainly you and Mr. Watt can continue this on a personal level.

Let me see now. Congressman Gary Miller.

Mr. MILLER. Thank you, Madam Chairwoman.

Secretary Martinez, it is really good to have you where you are at, and I am looking forward to the obstacles and goals ahead of you to be accomplished.

Mr. MARTINEZ. Thank you.

Mr. MILLER. It is amazing. I agree with many things that my colleagues on the other side said. Mr. Frank, I could not agree with you more about the lack of energy policy by the Clinton Administration and how that is negatively impacting affordable housing in this Nation. I think you are right on that point.

You mentioned housing production. And I think we do need to emphasize housing production. The problem is that many people want to resolve this issue of affordability and supply through Government subsidies. And I do not believe that is the proper answer.

Also, I think Mr. Frank was right on when he said vouchers have no effect on providing housing. Vouchers only add to the demand rather than supply.

Another comment was made by one opening colleague suggesting that developers skimming off the top on HUD is a huge problem. And perhaps in Government programs that is true. However, I believe that is not true in the private sector. I think that I am the only Member of this subcommittee who ever entered into a contract with HUD. I did a lot of HUD work in the 1970s.

And I recall that my partner was called into the HUD director's office in Los Angeles and told that if we wanted to do more HUD work, he wanted one-third of our profits in advance prior to us receiving the contract. And that is the last HUD program we ever got contracted for.

So a lot of things need to be done with HUD. And I think the greatest obstacle to providing affordable housing that we face today is Government. The average sales price of a home today, 35 percent of that sales price is the cost of Government. For example, for a $100,000 home, $35,000 of the total cost of that home is directly associated with Government.

And Mrs. Lee, I recognize the problem in the San Francisco Bay Area. I was a developer there in 1985, and the average cost of a home we sold was $200,000, and $75,000 of that sales price was directly associated with Government. And we did some work in the Bayview Area. Do you know where that is at? It's in the redevelopment area. The cost of a home attributed to Government was even

higher than that when you were associated with the redevelopment agency. There is a huge problem, and the problem we face today is Government.

Mr. Secretary, I have a couple of questions for you, and I think they are very important. What would you think about a Federal law that requires all agencies to consider the impact on housing affordability at all levels when writing regulations? Furthermore, should property rights be better defined in law, and should we look at the impact on the fairness of applications of Endangered Species Act as it applies to affordable housing?

Mr. MARTINEZ. Well, let me say, then, in the early 1980s, I was asked by the Mayor of Orlando to head an affordable-housing task force—how do we make more housing affordable in our community?

What we did is we found a detailed list—a laundry list of things that—actions by Government that add to the cost of housing.

We came up with some recommendations and ways in which we could peel off some of those regulations and peel off some of the mandates and requirements which would then lower the price of a home.

We thought those were very, very positive and good ideas then.

I would still believe that those would be very good ideas today.

So, from my own local experience, I assure you that those would have a very important effect——

Mr. GREEN. Those do need to be——

Mr. MARTINEZ. ——lowering the cost of housing.

Mr. MILLER. I think you have a huge task before you, and I believe you are sufficiently prepared to accomplish that task.

I would like to go over a few statistics on HUD's history and where I think we have gone wrong and what we have to correct in the future.

FHA mortgage insurance paid out almost 77 claims worth $6 billion in 1998.

Those costs were passed on directly to consumers in higher premiums.

In 1997, single-family homes stayed in the Federal inventory for an average of 5.4 months.

In 1998, it went to 6.6 months, and the last time I checked it was still increasing.

In 1996, there were 25,000 single-family homes inventoried by HUD.

In 1998, it increased to 40,000. In 1999, it was 50,000.

The HUD single-family inventory was valued at $1.9 billion in 1996.

In 1998, it increased to $3.3 billion. Fifteen percent—and this is really what bothers me—15 percent of HUD's property is held in inventory for more than 12 months.

The private sector only has about 2 to 3 percent that is in inventory for more than 12 months.

In 1996, the average loss on a piece of property from HUD was $28,000.

In 1998, it increased to $31,000. In June of 1999, it was $32,470, and, if you multiply that by 50,000 properties in inventory by the average loss of $32,470, that is $1.6 billion.

This is just not a theoretical problem for my district, and I dealt specifically with the city of Pomona, who has over 200 boarded-up homes.

The biggest problem I have had with HUD in the last 3 years is their effort to put non-profits out of business.

The problem non-profits face is the vague and ambiguous requirements placed upon them by HUD.

I am not chastising you. I am trying to encourage you to resolve these.

I went to the HUD office in Santa Ana 2 months ago with several non-profits, and they thought I was just a member of the non-profit groups, until, about an hour into the meeting, I told them who I was.

Out of 300 non-profits in California, they were proposing to put over 200 of them out of business.

One of them was a non-profit controlled by the city of Pomona—which the Board of Directors was the President of Pomona First Federal Savings and Loan—the Mayor of the city, the City Council members, the Planning Director, Economic Development Director, and business leaders who went there for no other purpose rather than to clean up the HUD inventory in Pomona.

HUD was going to put them out of business, and I think this is something you need to address.

If we are going to provide affordable housing in these States, we need to look at streamlining Government and getting Government out of the way, in many cases, and let the private sector do their job.

Mr. MARTINEZ. Congressman, you know, you have outlined a little bit of my agenda.

It gives me kind of a spinning feeling as I sit here listening to all that you would like for me to fix, and I will try to do it in the next few months if I can.

The fact of the matter is that HUD did not get in this mess overnight. It is not going to get out overnight, either.

But, as I look to the question of how do we get more production—and should we have a new production program right now and let's tap into the FHA fund and fund it and move ahead, and we have another program.

Then, see, you can walk away, and you can go home and say we did something good. We just put another billion dollars into a new production program.

Then, there will be a hearing a year from now, 2 years from now.

Someone in my place will be trying to figure how to answer your questions about what went wrong with the program.

We will be talking like we are today with the 203 issue in new York.

The fact is that I believe this agency needs some time to catch its breath.

There are $30 billion we are throwing at the problem this year as we did last year.

By the way, the increases that this Department received in the last couple of years, I believe, are unsustainable as a prudent matter of Federal budgeting, but also as an absorption matter, 16-, 19-percent increases.

So, when you talk about these modest reversals in some of the programs, like the Capital Fund, those need to be contrasted versus what we received last year, which was a very substantial increase.

We are taking this budget back to a sustainable level, 6.8, I think, as it relates to 4 percent in the rest of Government.

We are doing pretty well, but I believe, if we are going to be able to address these issues, that, if we do, it is not out of a lack of caring that we do not want a new program.

It is out of a need to manage what we have got well, so that we can see the results of what we are trying to do that we are not doing very well, and then judge the results of what we have done, not by the new program that we got, not by how much money we threw at the problem, but what results we got.

Mr. MILLER. Absolutely.

Chairwoman ROUKEMA. I am sorry. We are almost 3 minutes over time. But, certainly you can continue this conversation with Secretary Martinez. He is going to be forwarding to us a considerable amount of documentation, and this will be included. Thank you.

Now we have Congresswoman Stephanie Jones.

Ms. JONES. Thank you, Madam Chairwoman.

Secretary Martinez, it is nice to see you again.

Mr. MARTINEZ. Thank you.

Ms. JONES. I enjoyed seeing you at the WOW Program for the Congressional Black Caucus Foundation.

But, I am troubled, and I am a former prosecutor, so I am going to cross-examine you a little bit.

I would like short answers to my questions, please. Now, I want to talk about the Drug Elimination Program.

In Cuyahoga County, Ohio, which is my congressional district, the Drug Elimination Program has been significant in reducing crime and activity in public housing.

In fact, I think, when it was created in the Reagan Administration, the purpose was because there was concentrated living in public housing.

You agree with that, right? Concentrated. Densely populated.

Mr. MARTINEZ. It was begun as an $8 million program to a few targeted housing——

Ms. JONES. But, no, answer my question. It is densely populated living, is that correct?

Mr. MARTINEZ. I cannot answer——

Ms. JONES. Public housing.

Mr. MARTINEZ. Well——

Ms. JONES. Yes or no?

Mr. MARTINEZ. I am telling you that public——

Ms. JONES. Yes or no?

Mr. MARTINEZ. In some places, public housing has densely populated——

Ms. JONES. High crime rate, yes or no?

Mr. MARTINEZ. In some places, yes. In some places, no.

Ms. JONES. Drug elimination only went to communities where it was a high crime rate, densely populated, to reduce programs, yes or no?

Mr. MARTINEZ. In public housing areas where the population is elderly, they have no drug problems, and they do not have the——

Ms. JONES. You have not been to Cleveland. You have not been to New York. In public housing where there's elderly, people come in and prey on the elderly and sell drugs, Mr. Martinez.

What country have you been in in the last 10 years?

My next question——

Mr. MARTINEZ. May I answer your last——

Ms. JONES. No, no, no, you cannot.

Mr. MARTINEZ. I do not get to answer?

Ms. JONES. I am going to keep going. No.

Mr. MARTINEZ. I do not get to answer?

Ms. JONES. No.

Mr. MARTINEZ. OK, that is fine.

Ms. JONES. The purpose of the Drug Elimination police officers, Mr. Martinez, was such that the police officers could get to know the residents. Do you agree with that statement?

Mr. MARTINEZ. Do you want me to answer all questions or just the ones you choose for me to answer?

Ms. JONES. I am running the questioning. You are answering, and you answer my questions and do not get smart with me, because I am not getting smart with you, sir.

Mrs. KELLY. Madam Chairwoman, point of order.

Ms. JONES. You are here to answer my questions, and——

Chairwoman ROUKEMA. I am sorry. I am sorry. I have never, ever in my 20 years on this committee heard this kind of response to members of the panel. I am sorry.

Ms. JONES. I have never heard this kind of response to Members of Congress.

Chairwoman ROUKEMA. Excuse me?

Ms. JONES. I asked him a question. He is trying to make jokes——

Chairwoman ROUKEMA. I think you——

Ms. JONES. ——out of my questions, and I do not appreciate it.

Chairwoman ROUKEMA. I beg your pardon. I did not hear any jokes.

Ms. JONES. Look at his face.

Chairwoman ROUKEMA. If you want an answer, let him answer.

Ms. JONES. I am telling him when I want an answer, Madam Chairwoman.

Chairwoman ROUKEMA. All right.

Ms. JONES. You cannot run my questioning. Out of all respect to you, I am asking the questions, and I am getting the questions I want answered. Now, when you want to do your questions, then you do yours, but you cannot run mine.

Now, my question is the purpose of police officers on the beat was so that the neighborhood people could get to know the law-enforcement folks, is that a fair statement?

Mr. MARTINEZ. Yes, ma'am.

Ms. JONES. And so for you to terminate the Drug Elimination Program across the country without having really looked in-depth to the impact that it has had in communities, where there was a high crime rate and improvement, is irresponsible.

For you to terminate these programs in the Administration——

I wanted you to take back to the Administration our frustration about the Drug Elimination Program in light of the elimination of the COPS Program as well. Could you do that for us, please, Mr. Martinez?

Mr. MARTINEZ. I will do so.

Ms. JONES. OK. Now let me ask you about the reduction to a 2-month reserve for HUD programs.

What was the rationale for the reduction of 2-month reserves?

Mr. MARTINEZ. The rationale was that 2-month reserve was not necessary, that 1-month reserve was adequate in light of the fact——

Ms. JONES. Adequate for what purpose?

Mr. MARTINEZ. Adequate to never have a problem in being able to administer the program and payments being made timely.

This program has gone from a fiscal year to a calendar year.

We will not be running into the year-end budgetary problems, which it was intended to avoid.

So, in fact, that reserve—and I think this is widely acknowledged to be correct—is not a necessary reserve to be maintained at a 2-month level, but that, at 1-month level, it would be very adequate to meet the needs of the people in public housing that would be depending on the payments, so that they would never have a problem of them being timely made.

Ms. JONES. So your financial advisor at HUD said adequate to meet the standard for determining whether you have a 2-month reserve or a 1-month reserve was to be adequate to meet the needs of——

Mr. MARTINEZ. No, because——

Ms. JONES. ——residents. That is the financial standard.

Mr. MARTINEZ. No, it is not just a financial standard. I think the——

Ms. JONES. What is the financial standard for reserves then?

Mr. MARTINEZ. This reserve was there because it was feared that, when the budgeting was coming at a fiscal year, that there would be a discussion at the end of the fiscal year and that the budget would not be completed, and that at that point the public housing agencies would not get their funds on time.

In fact, what has occurred, when this has happened, is that the Congress has gone ahead and funded the payments for public housing Section 8 anyway.

The problem has never arisen. In addition to that, it has now gone to a calendar year.

So, therefore, the year-end budgetary problem does not arise, because you have an additional 3 months until the beginning of the calendar year before the problem would ever come to pass anyway.

Ms. JONES. And that is what your financial person said——

Mr. MARTINEZ. No, ma'am.

Ms. JONES. ——is the standard for reserves? That is the question I am asking you.

What is the standard for maintaining the reserve in accounts such as Section 8?

Mr. MARTINEZ. It was a prudent timeframe that would allow us to always be able to meet the payments without ever coming to a problem where we would not have those payments available.

Ms. JONES. Mr. Martinez, I mean no disrespect to you at all.

We only have 5 minutes. I had specific questions I wanted answered. In your past questioning, you did not answer the specific questions of others. I was trying to direct your examination, and I mean no disrespect. If you think I did, please forgive me, but I represent the 11th Congressional District of Ohio. I needed questions answered for my constituents and my colleagues. Thank you very much.

Chairwoman ROUKEMA. Congresswoman. All right.

Mr. MARTINEZ. I hope I have answered them. If I have not adequately answered——

If you would submit them in writing in any way you would like, I will try to do my best to answer them politely.

Ms. JONES. I would like to meet with you, sir. Thank you.

Mr. MARTINEZ. If you felt that I was, in my facial expressions, meaning some disrespect to you, I sincerely——

Ms. JONES. I did.

Mr. MARTINEZ. ——apologize. I did not intend for that——

Ms. JONES. Thank you.

Mr. MARTINEZ. ——to be the impression.

Ms. JONES. And I accept the apology.

Chairwoman ROUKEMA. Thank you, Secretary.

Now we have Congressman Grucci, please.

Mr. GRUCCI. Mr. Secretary, welcome.

Mr. MARTINEZ. Thank you, sir.

Mr. GRUCCI. Thank you for taking time out of your schedule to be with us and talk about these very important issues.

I am not a prosecutor, so I am not going to prosecute you here today.

Mr. MARTINEZ. Thank you very much.

Mr. GRUCCI. I do have a couple of concerns about affordable housing that you and your agency may be able to address as you go through the restructuring of your Department.

But, first, I would just like to take a moment to say that the law-enforcement agents in my communities, where we have HUD housing and we have downtrodden communities, they do respond.

They respond adequately. They respond properly, and they respond effectively in eradicating the crime and bringing the perpetrator to justice.

Probably that may be one of the reasons why we do not have a voucher system that does not get fully utilized, because the communities are being addressed in both the need for affordable housing and the ability to keep those affordable-housing areas safe for the inhabitants.

What I would like to bring to your attention, sir, in the form of a statement—and embedded in that statement are a couple of questions—is that affordable housing on Long Island——

Let me just start by saying the housing stock on Long Island in New York is at a premium.

We have a very tight housing market. It is a very desirable area.

We do have areas and pockets of poverty and pockets that need help, and it becomes increasingly more difficult to find affordable housing when: a, you live on an island, and b, the island is a desirable place to live.

So, there have been some requests by agencies, like the Long Island Housing Partnership and the Association of Long Island Housing Agencies, for some additional help in the area of trying to encourage affordable housing to take place, either through existing housing stock, by landlords, and so forth.

One of the things that came to my attention was that this subcommittee successfully, in 1996, I believe it was, was able to bring the income limit caps for the HUD HOME Program to 80 percent of the median income.

It was, I guess, done as a compilation of about 43 different regions, including the one that I live in, Suffolk County.

That has changed, from my understanding, and making it more difficult now for affordable housing to be started or to be able to continue.

I hope that you take a look at that and see if there are ways that we might be able to make adjustments in areas where we do have very high costs of living and the pricing of homes are very high.

Mr. MARTINEZ. I think that is a very good point, and I think it is an issue that arises in certain areas of the country that are very peculiarly afflicted like that.

I think we need to try to find a way that our policies and our programs can better address those areas.

I think, frankly, one of the things that I see that is developing, like in San Francisco, is where the private sector is also getting involved in partnerships.

We want to look to those and see how we can utilize the resources of the private sector—or the resourcefulness of them, so that we can better provide additional stock of housing that is affordable.

Mr. GRUCCI. I thank you for that. There are two other points that I would like to make before my time expires.

While everyone is very concerned, and rightly so, about the issue of lead and the removing of lead in the facilities, it does cost and cause a burden to be placed on the landlords, further exacerbating the situation of the—not wanting to bring Section 8 housing online, because, as my colleagues have pointed out earlier, in the private sector, you can get significantly more money for those rentals.

Mr. GRUCCI. My request would be is that, if there is in that funding that you have talked about, the ability for local housing agencies to be able to be given one-time grants to be able to effectually remove the lead-based paints in the homes, so that it does not become an additional burden on those who would be willing to provide the affordable housing, and lastly to encourage more of the affordable housing to be done in places like former strip malls or previously developed areas, and change them into affordable housing development areas.

Could there be some sort of incentives given to the private landlords, things like security deposits or brokers' fees, to help encourage them to not only build the units, but to rent them?

These are thoughts that I would like to leave with you as you go through the process of redesigning, redeveloping, and trying to advance your agency.

I do believe that you are the conscience of America in HUD.

You certainly address the compassionate side of the compassionate conservative, and I applaud you for your efforts and your continuing effort here.

Mr. MARTINEZ. Thank you. I think your ideas are good, and we should be looking for creative private solutions to a lot of these problems.

A lot of the governmental ones have been tried, and they do not always work very well, so I appreciate your input. Thank you.

Mr. GRUCCI. You are welcome. I yield back the remainder of my time.

Chairwoman ROUKEMA. Thank you. I appreciate that.

Congressman Clay.

Mr. CLAY. Thank you, Madam Chairwoman.

Welcome, Mr. Secretary.

Mr. MARTINEZ. Thank you.

Mr. CLAY. Just to let you know a little about the area that I represent, I represent St. Louis, Missouri and part of St. Louis County, an older industrial community with some severe affordable-housing needs.

Today, I just wanted to hear some of your views on transitioning public housing tenants to home ownership. That is the first question.

Mr. MARTINEZ. I think that there—You know, one of the things that I remember from being a public housing official is that—local official, it was so sad to see multi-generations living in what really should have been, perhaps, a temporary help to move on to something else.

Well, I think whatever we can do to move people into home ownership, for those who can—understandably there may be some who never can—but to work with them to facilitate their learning the skills that it takes to gather the equity necessary to put a down payment on a home, and things like that.

I think it was a very exciting and potentially transforming source of opportunity.

I think that, when we create more homeowners, we are really creating even better citizens.

I think that this is the opportunity to really live out the American dream that we would hope we can bring to many more American families.

I think that the faith-based initiatives provides those, and I do not want to take too much of your time; I will be quick.

A good opportunity to involve faith-based organizations in homeownership training—I know it is being done in some places—expanding that, I think, it would be a great opportunity to do that as well.

Mr. CLAY. And you are willing to devote some of the Department's resources to that effort?

Mr. MARTINEZ. Absolutely.

Mr. CLAY. OK, let me ask you another question. The Council on Large Public Housing Authorities has written that the Administration's budget would devastate public housing and that the Administration proposes public housing residents, our Nation's poorest, bear the brunt of the largest cuts in the HUD budget.

Do you agree with their assessment, that public housing bears the brunt of your proposed cuts?

Mr. MARTINEZ. Unfortunately, I think that they are perceiving it as that way.

But, I think, first and foremost, the conclusion they reach, I think is 100-percent wrong. It does not provide a catastrophic budget to public housing agencies.

I think they have misconstrued the reductions in the Capital Fund for some type of reduction in what they are going to be getting in the streamline of funding that they are anticipating for their modernization programs.

Mr. CLAY. A final question. You have justified draconian cuts in the public housing Capital Funds used to repair aging units on the grounds that there is a backlog of unspent funds.

Yet, the 1998 Public Housing Bill set strict "Use It or Lose It" rules.

If your only concern was unspent funds, why didn't you simply propose tightening up the time limits on those rules instead of slashing the funding?

Mr. MARTINEZ. Let me say that what you refer to, draconian cuts, are within a very, very small number, the same identical funds that Secretary Cuomo asked of you last year when he presented his budget.

So, I think that we are within a whisker of the same level of request, so I do not think that it would be draconian in any measure.

But, also, let me say that I believe that the public housing authorities will have——

What I am asking here is not that we are going to pull back unspent funds. These are unencumbered. They are not being used for any one purpose or not assigned to any one project.

There is an accumulation, Congressman, believe me, that will take more than 3 years before they could get to those funds.

So, the bottom line is that no repairs are going to go undone. No needs are going to go unmet by this reduction at this time.

Mr. CLAY. Well, are you trying to accelerate the use of those funds?

Mr. MARTINEZ. We are accelerating how we get them to them so that this can become a more quick absorption. Absolutely.

We are working on that. We have found a lot of things that need to be done better at HUD, and I am working hard at it.

Let me just say, also, for all of your knowledge, that I am doing this at this point still alone.

There is not a single other member of this Administration's team at HUD that is confirmed yet, so we are doing the best we can, but there is a lot to be done.

Mr. CLAY. Thank you for that response.

Mr. MARTINEZ. Yes, sir.

Mr. CLAY. Thank you, Madam Chairwoman.

Chairwoman ROUKEMA. I thank you, Mr. Clay. Those are very interesting and informative questions, and we will have to continue working on that. Now we have—I mean, in the total budget picture——

Mr. MARTINEZ. Yes.

Chairwoman ROUKEMA. Yes.

Congressman Barr.

Mr. BARR. Thank you, Madam Chairwoman.

Mr. Secretary, it is a pleasure having you here.

I know I speak for other Members of the subcommittee in welcoming you, and looking forward to working with you over the coming year-and-a-half or a little over a year-and-a-half that we have remaining in the 107th Congress.

I would also like to extend to you an invitation to visit Georgia.

If we can get you down to Georgia—and I know you will be visiting down there—to get you outside of Atlanta, at least——

Mr. MARTINEZ. Yes.

Mr. BARR. ——for part of your time. We have some outstanding public housing authorities, not just in my 7th District, but other districts as well.

I do meet with those public housing authorities on a fairly regular basis, and I hear from them, both the good, the bad, and the ugly, dealing with HUD.

One of the things that I do hear is appreciation for the CDBG grant monies.

I know those are being requested to be fully funded at the same level with no cuts. We appreciate that very much.

With regard to the Drug Elimination Program, I have heard from housing authorities on that and look forward to working with you.

I know that you share our concern that we want to keep drugs out of public housing projects.

We want to have at least as low a crime rate as we do in other areas, and I certainly presume that the President and you will be working to explore ways to do that.

Mr. MARTINEZ. Yes.

Mr. BARR. I am heartened that, even though you are removing the funds from the existing program—and I have read a lot of the material with the abuses in that program, such as using funds for gun buy-back programs, which was not authorized by Congress, and I presume certainly not supported by this Administration.

I was glad to see, though, the additional $150 million that you are proposing to move into the Operating Fund, and that, as you have indicated here today, public housing authorities will be able to use whatever portion they receive of that money for the Drug Elimination-type Programs if they choose.

Mr. MARTINEZ. Correct.

Mr. BARR. Is that——

Mr. MARTINEZ. And that is absolutely correct, and it is my intention.

My intent is that that would be available to them to use for those programs that work, and there are programs that work out there.

They should still be funded through that $150 million that we put into the budget.

Mr. BARR. Thank you. Just a little bit ago, I stepped out to meet with Mr. Chuck Snyder, President and CEO of National Cooperative Banks.

I know that they have been in touch with you and certainly hope that you will be working with them to explore ways through cooperative efforts to, not only continue rent-subsidy programs, but, as much as possible, move into the area of home ownership, which is

much better than just rent and, in many respects, such as working through cooperative banks, can be done basically at the same price—or the same monthly amount of money as rentals.

Mr. MARTINEZ. Correct.

Mr. BARR. With regard to support for first-time home buyers, do you share my concern that it is not simply a matter of making funds available, but also setting up programs to work very carefully, very comprehensively, and over the long term with first-time home buyers in these programs to ensure that they truly do understand the responsibilities of home ownership and all that goes with it.

With regard to the programs that the President is proposing to fund for first-time home buyers, will there be both funds and attention paid to working with those people to ensure that they do understand their obligations, in a very broad sense, with regard to home ownership, and will facilities be made available to work with them?

Mr. MARTINEZ. Congressman, you are correct. A very important component of home ownership is—becoming a knowledgeable homeowner is—becoming a person who understands the financial responsibilities as well as maintenance and other issues.

We will be working with community groups, and particularly the faith-based organizations and communities, to help us carry out the homeowner education programs.

They are an important part of what HUD will do in the future.

Mr. BARR. Good.

One final issue that I would very much appreciate your looking into and getting back to me, that is with regard to the $50 minimum rent issue that was part of the reform legislation.

In many areas not only is the $50 minimum rent not being charged, but the participants are getting money back from the public housing authority, because the utility subsidy is more than $50.

I would appreciate—I presume you have not had a chance——

Mr. MARTINEZ. I don't have.

Mr. BARR. ——to explore that in great detail. I would appreciate the views of the Administration as to whether or not we need to revisit that to ensure that a $50 minimum rent really is a $50 minimum rent.

We might need to explore a legislative fix to that area, but would you look into that——

Mr. MARTINEZ. We will look into it, certainly, yes, sir.

Mr. BARR. ——and get back to me?

Mr. MARTINEZ. We will get back to you.

Mr. BARR. I appreciate that, thank you.

Chairwoman ROUKEMA. Thank you, Mr. Barr. That was an excellent point. I think we are all getting an education here today.

Mr. MARTINEZ. Yes, yes.

Chairwoman ROUKEMA. We are teaching each other, or learning from each other, hopefully.

Now, Congresswoman Waters.

Ms. WATERS. Mr. Martinez, I welcome you here today.

Mr. MARTINEZ. Thank you.

Ms. WATERS. But I feel a little bit sorry for you, because they sent you up here with some fuzzy numbers and a budget that does not add up for you to defend.

I do not even know if you are responsible for putting any of this stuff together, but you need to take the message back that we understand that the Administration proposed a funding-year budget 2002 for the Department of Housing and Urban Development of approximately $30.4 billion, claiming $1.9 billion, or 7 percent increase, over the $28.5 billion provided in funding year 2001.

However, the Administration budget actually cuts HUD funding by $1.715 billion.

This is a 6 percent cut. In real inflation-adjusted terms, the cut is $2.15 billion.

That, sir, is an 8 percent cut. The Administration's claim that HUD's budget goes up by $1.9 billion relies on counting as high spending a $3.63 billion increase in Section 8 budget authority that does not increase spending or outlays by a single dollar.

This phantom increase should be deducted from an accurate budget.

These phantom Section 8 budget authority increases do not increase outlays by a single dollar.

They do not serve a single new tenant or increase assistance for a single tenant and were previously funded by the 1997 bipartisan budget agreement.

Factoring out this phantom increase, the Administration budget is a $1.715 billion net cut.

I will not go into further details except to ask you to examine that so that, when you are asked to defend it, you will not be put in a position of trying to defend something that you are not able to defend.

Specifically, I want to talk about cuts. The principal budget cuts are in four areas, as was mentioned and been talked about, public housing, Section 8 reserves, CDBG special purpose grants, and the HOME Program.

The budget finds increment funds, incremental Section 8 vouchers for 44,300 fewer families than last year and zeros out new vouchers for the disabled.

The budget flat-funds a number of programs, funding year 2001 levels, including elderly housing, disabled housing, homelessness, CDBG formula grant, and Native American housing.

Very controversial, $700 million reduction in modernization funding, that is, the Public Housing Capital Fund for public housing authorities.

HUD justifies the reduction because these housing authorities currently, they say, have a $6 billion backlog.

Let me tell you why this bothers us so much. I think it was mentioned by our Ranking Member here that, you know, this solution to the housing needs of low-income people was not designed by low-income housing people.

So, we stack these people on top of each other in these public housing units.

We say, when we get disgusted about the crime and the problems, that it is their fault.

Well, if we do not fix up these places, how are they supposed to have any pride in where they are living?

We have got public housing units in America that have not been modernized.

As a matter of fact—Mr. Clay is gone—but I can tell you, even looking at St. Louis, when the Pruitt Eigo just got so run down and so bad, they had to blow that thing up.

There are a lot of others in America that need to be just destroyed. They are so bad.

So, we have real problems with that, and the other thing that we have a lot of problems with, Mr. Secretary, is this: We are working very, very hard to do something about the elimination of drugs and crack cocaine in our communities.

When we have a so-called conservative Administration that comes along and not only reduces the amount in police programs, such as the COPS Program, but then you pull out the money in areas like public housing projects to deal with the problem of drugs, you have no credibility.

This Administration does not have any credibility in eliminating funds to deal with the problems of drugs in public housing.

That bothers us a lot. I am not going to even talk about the housing crisis in America or in California and the amount of cuts that we have to endure with this budget.

But, I want you to know, because my L.A. Housing Authority people said please, please, please let them know that we are very much concerned about the $700 million reduction in public housing Capital Fund and the proposed elimination of the $310 million in public housing Drug Elimination Program.

It is one thing to talk about how you are going to help all these new homeowners.

First of all, I want you to know that many of the people that you are talking about who are working for minimum wages, who have not been the beneficiaries of this so-called well-performing economy prior to the downsizing that we see, are not even going to be able to afford, even with so-called assistance for down payment, to talk about getting into homes.

We have got to do something about getting poor people and working people into homes and giving them some support and job training, and all of that, to get them in the position of being homeowners.

But, I do, having said all that——

Chairwoman ROUKEMA. Excuse me. Excuse me.

Congresswoman Waters, you are a minute over time, so I will let you summarize and give the Secretary an opportunity to respond.

Ms. WATERS. OK. I did not expect any answers to all of that.

But, I am curious, with this so-called home ownership, American dream-type stuff you are talking about, what is this Hybrid ARMs Program?

You are not bankers. You are talking about you are going to seek authority and offer low-income families new adjustable rate mortgages.

How do you plan to do that? You know, I would be just happy if you were to enforce CRA so that the banks and the lending insti-

tutions that are in business to do this would do the right thing, but just tell me how you are going to do that?

Mr. MARTINEZ. We cannot enforce CRA. That comes under Treasury—or the Fed, I guess.

But, the Hybrid ARMs is a new financing—I mean, is a financing mechanism that is available to the market in general.

We are trying to bring that available to low-income families as well.

It will help them by stabilizing their mortgage rate for a period of time until they can get economically sound or get the foothold in their new home and keep the new home as to avoid foreclosures and to make mortgage financing more available to poor people, frankly.

Ms. WATERS. I am sorry, where is this program? How do you do it?

Mr. MARTINEZ. It is an FHA program.

Ms. WATERS. It is an FHA program?

Mr. MARTINEZ. Right, it is under FHA insured home mortgages.

Chairwoman ROUKEMA. Excuse me. This, evidently, is something that we would want to have you respond in writing and give us some amplification on it.

Mr. MARTINEZ. Sure.

Chairwoman ROUKEMA. Yes, Mr. Frank.

Mr. FRANK. Can I just say I think—I guess a lot of Members will have written questions, which we will be submitting.

Chairwoman ROUKEMA. Yes.

Mr. FRANK. I must tell you at first I thought the Hybrid Arms was a new housing project of mixed income. It was "Welcome to the Hybrid Arms."

Mr. MARTINEZ. It is really a pitcher for the Red Sox, actually.

Chairwoman ROUKEMA. All right, thank you.

Finally, last, but certainly not least, Mr. Bereuter.

Mr. BEREUTER. Thank you, Mrs. Chairman.

Mr. Secretary, welcome.

Mr. MARTINEZ. Thank you.

Mr. BEREUTER. Congratulations on your appointment. I think anybody that takes on the Secretaryship of HUD is courageous. I place you in that category.

Mr. MARTINEZ. I particularly feel that way today, sir.

[Laughter.]

Mr. BEREUTER. Two things I want to mention I hope you will look at: the status of the Executive Branch appointments to the Indian Land Title Status Commission, which will make the Loan Guarantee Program for our Indian reservations work across the whole country; second, to ask you to consider a Technical Corrections Bill to present to us sometime this year on public housing.

I have a couple of things to call to your attention. I will start first by saying I am a former employee of HUD, one year right after the Army, I worked in the San Francisco office for the 10-State region.

I want the agency to do its job. Under the guise of administrative efficiency, the program structure was changed in HUD during the last Administration to a linear structure with program staff, such as the CDBG grant staff—and I will give you this in writing—pub-

lic housing staff, the multi-family housing management staff, the single-family housing staff, the fair housing and equal opportunity staff, the legal staff, in a field office answering to a person at headquarters and working independently of other field staff offices.

In some cases, these program staff now answer to different offices scattered throughout the country.

When a mayor or local government official wishes to resolve a problem that involves more than one program, there is no single office in the field that they can hear their appeal or concern.

So, I think this movement to elevate these decisions from field offices to the central region is a very bad decision.

It further confuses the issue to people. To further confuse the issue, people, now known as community-builders, were added to the structure for purposes of working with mayors and community leaders.

Among many that work with HUD, this is viewed as a huge and very expensive public-relations ploy.

At the Nebraska field office, approximately 50 staff had five community-builders with no secretarial delegations of authority and/or program responsibility.

Very questionably, these community-builders were brought into HUD at grades of GS–13 through GS–15.

I now understand the community-builders that were hired from within the agency are going to get promoted retroactively to GS–15.

I think this is one example of significant grade-creep that has occurred in the agency without corresponding work responsibilities.

One other example of this egregious abuse of public funds is a 26-person field office, Salt Lake City, where ten of the staff are community-builders, four at the GS–15 level, four at GS–13 level, one at GS–12, and one at GS–9.

Fifteen of the staff are single-family housing staff, but they report to an office in Denver.

Mr. Secretary, in a slightly different vein, I want to comment about HUD's relations with small housing authorities.

For example, my State has over 100. Most of them have less than 60 units, mostly for elderly housing.

I think the Department must find a way to reduce the enormous administrative burden these part-time executive directors face.

They have been forced to buy expensive consulting services and computer programs to run their, in some cases, 20-unit public housing entities.

By the way, they are extremely well-run and well-maintained.

I believe we have to give the Department some flexibility. I believe we have done that to some extent.

But, the Secretary, in the past, has not exercised that flexibility.

If HUD cannot find a way to reduce their oversight, then I think we should take a fairly dramatic step and forgive the debt and turn them over to the community or state.

Mr. MARTINEZ. You touched on three excellent management problems at HUD.

The State of West Virginia, I was there a week or so ago as I was speaking to the people of West Virginia—that work at the HUD office in West Virginia.

If you have a public housing issue in West Virginia, you have to go to Baltimore to get it resolved.

The people of West Virginia had no one at the HUD office there that can deal with the public housing issue. That is a real problem.

I think our drug elimination grant issue that—the housing authorities you are speaking of—these small housing authorities—they could not tap into the Drug Elimination Program effectively.

So, now, under the general grant application that we will have available, they might have a better opportunity to come into that money for whatever uses they might need, given their local situation.

So, I think you have just touched on three very serious management issues—the community-builders program roundly criticized, tremendous morale problem that it created for HUD, 10 percent of the personnel resources devoted to that program.

By June, I hope to have some fixes in place that I intend to implement.

That is not to mention, by the way, the other personnel allocation issues that we have at HUD—tremendously high top-end in some of our field offices with few or none in the clerical areas to do simple things like opening the mail.

So, there are a number of challenges, and I appreciate your remarks in terms of those three.

Mr. BEREUTER. Thank you, Mr. Secretary. I can see you are on top of some of these issues already.

I look forward to seeing a Technical Correction Bill from you, or Madam Chairwoman, that we ought to advance one sometime this year for the public housing authorities, particularly those small ones that I think need some flexibility and some relief. Thank you.

Ms. WATERS. Madame Chairwoman.

Chairwoman ROUKEMA. Yes.

Ms. WATERS. I would like unanimous consent to introduce a young lady who is with me.

Today is "Take Your Child To Work Day." Boys and girls, her name is Anabelle Wright from Benjamin Tasker Middle School, she is in the seventh grade. She wants to be a lawyer. She has been sitting here with us during most of this hearing.

Chairwoman ROUKEMA. Oh, well, thank you. We are very happy to see this young woman. I hope it has been an inspiration.

[Laughter.]

Chairwoman ROUKEMA. Yes? I hope we have not discouraged you. Actually this was an excellent hearing for you to attend and hear.

We have a wonderful new Secretary of HUD, and, as you can see, we have a lot of questions on a bipartisan basis and on a partisan basis, and this is how democracy works under our system.

Mr. FRANK. And the test on all this will be tomorrow at 10:00 o'clock.

Chairwoman ROUKEMA. I am sorry, I did not hear you. Oh, the test will be tomorrow.

No, we are not going to—we will let you have an oration, OK, let you talk back. OK.

Ms. WATERS. Thank you very much.

Mr. WATT. Madam Chairwoman.

Chairwoman ROUKEMA. Yes, Mr. Watt.

Mr. WATT. I ask unanimous consent to submit for the record copies of a number of letters from tenants in public housing communities from my Congressional District in support of the Drug Elimination Program, some of which are addressed to——

[The letters referred to can be found on page 129 in the appendix.]

Chairwoman ROUKEMA. Yes, I certainly would approve of that, and, before I end, of course, we will do the usual 30-day program for including written questions.

Ms. WATERS. Excuse me, Madam Chairwoman. I would like unanimous consent also to submit my statement for the record.

Chairwoman ROUKEMA. Well, yes. When you were not here, I had asked unanimous——

That unanimous consent had already been granted. I would just like to summarize this by stating for the Secretary that we are most grateful for your generous time commitment here and for the way that you handled the questions and the insights that you have given us, and for the open-minded approach to the questions that have been raised.

I certainly appreciate that. I would also point out that we will have follow-up hearings.

I think you made reference to a June date when you will have——

Mr. MARTINEZ. Yes.

Chairwoman ROUKEMA. ——more information on a number of the questions that were raised here, including Mr. Bereuter's.

So, we will, without question, have follow-up hearings on the technical corrections or other pieces of legislation that we will be looking at.

I think that Mr. Bereuter put it very well with one word, your courageous commitment to this office.

I really would like to underscore that and say ditto, it is a courageous commitment.

But, I think you must also recognize that the attendance at this hearing is graphic evidence of the intense high-profile bipartisan interest that this Congress has on the subject of housing, whether it is the delivery of service or the housing availability for all members of our society and, of course, the reforms that have been outlined here.

There are questions of reforms in the Department, and, as you get your staff in place, and your assistants and deputies in place, I am sure we will be hearing back from you on reforms, but also we do want housing affordability to be available to all members of our society in a fiscally responsible way.

Mr. MARTINEZ. Yes. Thank you.

Mr. FRANK. Madam Chairwoman.

Chairwoman ROUKEMA. Yes, Mr. Frank.

Mr. FRANK. I want to say to the Secretary again I acknowledged at the outset I know that he accommodated us in his schedule.

I do want to assure him, on behalf of all the Members, that we all realize that any differences that exist—and there are obviously some—are policy differences, not personal. We appreciate his goodwill on this.

Mr. MARTINEZ. Thank you.

Chairwoman ROUKEMA. Thank you, Mr. Frank.

I would say, for all Members, that, as is our procedure, without objection, the hearing record will remain open for 30 days for Members to submit written questions and to have the responses placed in the record.

With that, this hearing is adjourned.

[Whereupon, at 12:22 p.m., the hearing was adjourned.]

A P P E N D I X

April 26, 2001

Opening Statement

Congresswoman Marge Roukema,
Chairwoman, Subcommittee on Housing
and Community Opportunity

Hearing on HUD's FY 2002 Budget

April 26, 2001

Thank you all for coming to the Subcommittee's first hearing with HUD Secretary Mel Martinez. This hearing was originally scheduled for yesterday, but at the request of the Minority we rescheduled the hearing so that we could have more time to ask the important questions that we have regarding President Bush's proposed budget for HUD. In that vein, I ask that all Members try to keep their opening statements as brief as they can so that we can have enough time here today with the Secretary. Of course statements can be submitted for the record.

Mr. Secretary, I want to thank you for coming before us to explain the President's budget for HUD. You and I know that not everybody is going to agree with the levels of funding outlined in this budget. There are some items here that in my view, and in the view of others on this Subcommittee based on my discussion with the, warrant further discussion. This is especially true in light of some of the housing affordability problems that many in our Nation face today.

As you know from our prior discussions, Mr. Secretary, the lack of affordable housing is a problem that this Subcommittee plans to study over the coming months. The growth in the economy has created a major dilemma for an increasing number of working class and low-income Americans – a better economy means higher rents in many areas. These hard working Americans suddenly can't afford the rental housing they are occupying, or can't even find any housing available that is geared to their income levels.

With this issue as subtext, we discuss the HUD Budget. I know that you share my desire to move forward to address our housing problems in a deliberate, effective fashion, Mr. Secretary. I consider myself a strong fiscal conservative, so for my part I do not automatically presume that each and every government program that currently exists deserves an increase in funding, merely by virtue being there. Let us remember that the American taxpayer deserves consideration in this budget debate as well.

If redirecting resources from one program to another means resources are being used more efficiently and effectively, then we should be supportive. By the same token, when the policy rationale is not as clear to us, then our duty here is to question you, Mr. Secretary, on how you settled on the funding for certain programs.

With that in mind, I hope you will in the course of your testimony and in your answers to our questions deal with a few areas in particular. First, there is a question as to whether the HUD Budget signifies an increase or a decrease from prior years. You know that expiring multiyear Section 8 contracts, which are then renewed for annual terms, take up an increasing amount of HUD's budget authority. As a result, just to maintain current Section 8 contracts requires an increase in annual budget authority. I want you to tell me then why we should consider, as you have claimed, that the HUD Budget represents an increase in funding.

Secondly, you have reduced modernization funding for public housing by $700 million. The Budget also eliminates the Public Housing Drug Elimination Grant Program, which was funded at $309 million.

Finally, while the HUD Budget provides approximately $200 million for a Downpayment Assistance Fund, it is a setaside from the HOME program. Why should we not consider this a reduction in a program which is supposed to provide localities with maximum flexibility as to how to use these resources?

With that Mr. Secretary, please be assured that I will work with you over the coming months on developing solutions to our Nation's housing problems, and look forward to your testimony.

Are there any other opening statements?

Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on Housing and Community Opportunity Hearing
HUD's FY 2002 Budget

April 26, 2001

Thank you Chairwoman Roukema.

I welcome Secretary Mel Martinez to the Committee on Financial Services. This is the Secretary's first official appearance before a House Committee since confirmation in January. Mr. Secretary, I look forward to working with you to provide the necessary support, whether legislatively or otherwise, to reform and reinvigorate the Department of Housing and Urban Development.

The cornerstone of the American dream is homeownership. When our citizens own homes, they put down roots and therefore have a greater stake in the growth, safety and development of their communities. Through prudent decisions that balance good housing policy along with maximizing the taxpayer's investment, HUD can once again be the architect of that cornerstone. President Bush and Secretary Martinez clearly recognize this opportunity, and I commend them on a good beginning.

The FY 2002 proposed budget for the Department of Housing and Urban Development is the first official indicator of the direction of the new Administration's housing policy. It is a balanced package that combines new initiatives with sound management to allow the Department to achieve its mission and goals more efficiently. There are a number of good new initiatives:

- the creation of a downpayment assistance program for first-time homebuyers;
- a Community Technology Centers Initiative to help communities create or expand technology; and
- the "Improving Access Initiative" to make religious and civic organization buildings accessible to the handicap, to name a few.

Additionally, HUD has substantial responsibilities in the area of brownfields redevelopment. I have a long history of working on brownfields legislation, which is important to my home state of Ohio and will be interested to hear about your plans in this area.

I know that the City of Mansfield, in Richland County, Ohio, located in my district, with HUD's assistance, takes low-income families with children paying high rents and transitions them to homeownership. This program, which was nominated for a HUD award, works with local lenders to help with downpayment and closing cost assistance, plus credit counseling for those who need it. Since the program began, 34 renting families have become 34 home-owning families, and that's a real success story for Mansfield and for Mayor Reid.

I applaud Chairwoman Roukema's leadership in this very important part of our Committee's jurisdiction. I look forward to a close and productive relationship with you, Mr. Secretary, as we work together to help our citizens achieve their dreams of homeownership, and to continue to improve America's cities while saving taxpayers money.

Thank you, Madam Chairwoman. I yield back the balance of my time.

Statement by Congressman Bob Barr (R-GA)

Subcommittee on Housing and Community Development

HUD's Proposed Budget for Fiscal Year 2002

April 26, 2001

Thank you, Madam Chairman. I would like to welcome Secretary Martinez, I look forward to hearing your testimony on HUD's budget for Fiscal Year 2002, and to working with you during this 107th Congress.

I am pleased the President's budget contains several new initiatives which go straight to the core mission of the Department of Housing and Urban Development: to provide greater access to the American Dream of home ownership, and to make sure affordable housing is available to those who might otherwise not be able to afford it.

I look forward to hearing about the Administration's plans for the "American Dream Downpayment Fund," which will help more than 130,000 families take a giant leap toward owning a home for the first time. I also look forward to hearing about the additional funds provided in the budget for public housing operating costs, which many public housing authorities need to offset the rising cost of utilities. I am also pleased the Administration has recognized the importance and value of Section 8 Housing Vouchers, by renewing all expiring vouchers, as well as funding an additional 34,000 housing vouchers.

I also have several issues which I have discussed with public housing authorities in my district which I would appreciate hearing the Secretary's comments on. I have been informed of great difficulties housing authorities are having with Public Housing Assessment System (PHAS) Inspections. Public Housing facilities are required to undergo periodic inspection to ensure they are in compliance with HUD requirements for building standards. Local authorities have voiced their desire to see a more cooperative and resasonable approach on the part of HUD inspectors. They have complained of the inconsistent and often excessively punitive administration of the inspection process. Inspectors are failing housing facilities due to the slightest infractions of rules, bringing massive financial repercussions on the facility and its tenants.

Housing authorities in my district also have conveyed concerns to me about the interpretation of rules regarding minimum rents under HUD's "Total Payment Concept." The VA/HUD Appropriations Bill for Fiscal Year 1999 set up the provisions for minimum rents, and many housing authorities have told me these rules are being grossly misinterpreted. For example, one housing authority in my district charges all residents a $50 minimum rent, in accordance with the law and HUD's requirements. One would assume that utility costs would then be charged in addition to the minimum rent. However, some HUD officials have interpreted the minimum rent requirement to be the final total amount any tenant should pay per month. Thus, when a tenant is charged the lawful minimum rent of $50, then receives a $62 utility allowance for the month, the housing authority actually ends up paying the tenant $12! This interpretation of the law defies common sense and the clear intent of the law.

One additional area in which I have great concern is the common occurrence of drug crimes in

Public Housing. Several Housing Authorities in my district have passed on their concern to me on this subject. Clearly, as long as we have a commitment to providing public housing to low-income families and individuals, we should do everything we can to ensure anti-drug law enforcement is provided to keep such housing safe and drug-free. In light of this commitment, I believe local authorities are the best law enforcement agencies to serve and protect public housing facilities. Local law enforcement is proven to be more effective than federal presence; and is much more cost effective, and it creates an opportunity to develop bonds of trust between the members of the community and law enforcement. I believe Congress, and the Administration should take steps to ensure public housing facilities maintain their ability to protect themselves against drug crimes, and that federal dollars which are spent on law enforcement should be focused on local police departments, which are proven to be more effective.

I look forward to hearing the Secretary's thoughts on these and other issues, and I thank the Chairman for holding this hearing.

Rep. William Lacy Clay (MO-1st)
Housing Subcommittee Opening Statement
April 26, 2001

Thank you Mr. Chairman for scheduling this hearing. I welcome this opportunity to examine the President's HUD housing proposals, along with my committee colleagues, so that we may determine whether his proposal's adequately address our nation's critical housing needs.

I would like to specifically address a number of the Administration's proposals that I believe are fundamentally flawed and critically under-funded.

The Administration would have Americans believe that its overall HUD spending proposals will actually increase that department's budget by $1.9 billion. But in real terms, if you do not count the Administration's $3.63 billion increase in technical budget authority--increases that have virtually no impact on outlays or on assisting families-- the Bush Administration's HUD budget actually cuts spending in fiscal year 2002 by $1.3 billion. And when adjusted for inflation, these cuts total $2.2 billion, which represents an 8% cut in the total HUD budget.

The fact is, President Bush's proposed funding levels for HUD housing programs are so regressive, they are actually $1.8 billion below HUD housing funding levels for Fiscal Year 1995.

These severe cuts encompass housing and economic development programs that are vital to senior citizens and low-income families struggling to find safe and affordable housing. As an example, the Administration proposes cutting $700 million from the Capital Fund, a program that provides critical housing resources for the repair and rehabilitation of homes in depressed communities. Additionally, the President's budget calls for a dramatic 11% percent cut in the HOME affordable housing program.

The Administration also proposes cutting $422 million from the Community Development Block Grant Program, and terminating the $309 million Drug Elimination program. Both programs provide cities with important resources for revitalizing communities, combating crime, and for providing needed job training skills.

And just as critical is the Administration's proposal to cut $640 million in Section 8 housing reserves and limit the number of new Section 8 vouchers to 34,000 nationwide. These cuts, if approved, would have a devastating effect on my own District.
The Administration's proposed housing cuts would in effect "turn back the clock" on my District's efforts to expand access to affordable housing for seniors and low-income families.

In both the City of St. Louis and in St. Louis County, we have made great strides over the last decade to increase affordable housing in the area, but we are still far from resolving the problem.

Five years ago, we had over 10,000 people in both the county and the city on Section 8 voucher waiting lists. Today, those numbers stand at 5,600 and 2,500 respectively. However, if the Administration's Section 8 voucher limit of 34,000 nationwide is allowed to stand, cities like St. Louis will see an immediate and dramatic increase in the number of people forced to wait for Section 8 housing. In New York City alone, over 215,000 families are currently on waiting lists for Section 8 vouchers. In an era of record budget surpluses and shrinking affordable housing options, we should be increasing–not cutting–our investments in affordable housing.

The Administration's HUD budget proposals would deny millions of families any hope of finding safe and affordable housing in the near future and make it even more difficult for us to effectively address our nation's growing affordable housing needs. Given that fact, I believe the Administration's HUD budget is wholly inadequate and must be rejected.

Thank you Mr. Chairman.

Statement of Rep. Barbara Lee
Hearing on HUD FY 2002 Proposed Budget
April 26, 2001

Thank you Madame Chairwoman. I will keep my remarks brief so that we can have a valuable question and answer discourse with Secretary Martinez.

As you know in my home of Oakland, California and the rest of the Bay Area we are experiencing a very serious affordable housing. The economic surge particularly in the high tech industry during the last few years has made this situation even worse, so that at every income level there is a critical housing shortage.

In a survey of affordable housing done by the National Association of Home Builders, only 45.8% of homes in Oakland are affordable to those making median incomes, earning the area a rank of 178th out of 193 metro areas surveyed.

The rental vacancy rate for Oakland is 4.6%, well below the U.S. average of 8.1%, and there are 3,000 families on waiting lists for section 8 vouchers. Unfortunately, in most areas in the region, the existing Section 8 subsidies no longer provide a viable affordable housing option.

In the Bay Area, there are at least 41,588 affordable housing units at risk of becoming market level housing. The homeless population in Alameda County has grown to more than 13,000 people and the number continues to increase with a larger percentage of women and children than ever before. These facts are sobering and even sad, but they are a reality for most Californians.

So I don't think this is the time for any cuts to the HUD budget because the federal government of the richest country in the world must provide a safety net, at the very least, of decent shelter. When the richest country in the world has a growing homeless population and a working population where individuals must work 80 hours a week to afford a modest place to live, not spending valuable quality time with their children and families, then we really aren't that rich after all. I believe there is more we can do to ensure decent living conditions for all Americans.

This is certainly not the time to cut in real terms the Community Development Block Grant, HOME formula grants, and public housing capital funds and the Drug Elimination Program. I cannot support this budget because it places a $2 trillion plus tax cut, of which working families will see pennies on the dollar of the tax cuts realized by the wealthy, square on the backs of the homeless, working poor, and middle income America.

Questions:
1)Several of us joined Congressman Barney Frank in writing to appropriators for a supplemental appropriation for additional funding for the Public Housing Operating Subsidy to cover significant and unexpected increases in utility costs being experienced by public housing authorities. This is particularly critical for those of us from California and other Western states experiencing an energy crisis. Are you supportive of this initiative – approximately $362 million to cover increased utility costs?

2)As you know, in the Housing and Community Development Act of 1992, Congress defined the community land trust model and recognized their significance in developing and preserving affordable housing. This legislation also made HOME funds available for a range of technical assistance services to community land trusts or CLTs. As CLTs are becoming widely viewed as an ideal complement to Smart Growth strategies and a critical tool in preventing displacement of low income people in gentrifying communities, technical assistance to CLTs is increasingly important to ensure their success.

HUD's contract with the Institute for Community Economics, the national intermediary that developed the CLT model and supports community land trusts across the country, is expiring.

Will CLT's continue to be a priority in this administration and do you plan to renew this contract? We'd like a commitment from you to make sure this valuable technical assistance continues to be available across the country.

Statement for the Record

Representative Gary G. Miller
Member
Committee on Financial Services

Subcommittee on Housing and Community Opportunity
Hearing on HUD's FY 2002 Budget

April 26, 2001

Thank you Chairwoman Roukema.

I welcome Secretary Mel Martinez to the Committee on Financial Services. I look forward to working with you, Mr. Secretary, to further our goals of increasing home ownership and bringing greater accountability to the Department of Housing and Urban Development (HUD) housing programs.

I have been a homebuilder for over 30 years. Most of my life has been spent providing housing and studying the issue from a local perspective. I have navigated the regulatory and economic environment of the housing industry, and I hope my experience can be a resource for you, Mr. Secretary, as well as for my colleagues on the Subcommittee.

Public Housing Drug Elimination Program (PHDEP)

Now, I want to address part of the Bush Administration's FY 2002 proposed budget for HUD.

Mr. Secretary, I must join with several of my colleagues on the Subcommittee to express my concern with the President's budget to eliminate the Public Housing Drug Elimination Program (PHDEP). Though I share your concern for the large number of abuses this program suffered during the past few years, I strongly support the essential purpose of PHDEP — to eradicate and prevent drug use and drug related criminal activity in and around public housing complexes.

PHDEP needs to provide **PREVENTION** funds for housing authorities that have a proven track record — those who had crime statistics in the past, but have succeeded in eradicating the criminal element and need to continue to work to keep it that way. It is cheaper to prevent than to cure, and better for families. It is also important to reward rather than penalize success.

Historically, local housing authorities applied for PHDEP funds when HUD issued a Notice of Fund Availability (NOFA) and housing authorities competed with each other for the funding available. This is no longer the case.

Instead, thanks to HUD, the Competitive Application process was changed on May 12, 1999 in favor of a formula funding program. This new criteria for PHDEP funds favors those agencies with severe crime and drug prevention problems in both public housing developments and in the community. As a result, housing authorities and communities that operate good public housing programs and established local crime and drug prevention programs before HUD developed PHDEP, and had received these funds in the past, are no longer eligible to receive funding under PHDEP.

Last year, I offered an amendment to H.R. 1776, the American Homeownership and Economic Opportunity Act, to address this problem. My amendment was accepted by voice vote as a part of the House-passed H.R. 1776 but, unfortunately, the bill ultimately died in the Senate.

My amendment would have modified the eligible local housing authority definition for the HUD PHDEP grants to include local housing authorities that can show evidence, through local efforts between the housing authority and police department, that they were able to eliminate drug and crime problems in public housing. Just because these communities have been successful does not mean they should be ineligible to receive funds. In no way would my amendment have taken money away from other communities. All it would have done is open up the eligibility requirements of to include successful housing authorities.

The City of Upland, California is a perfect example. In the past, Upland Housing Authority faced severe drug and crime problems. However, they chose to take control and started a program in 1980 with the full support of the Upland Police Department. Today, Upland has one of the lowest crime rates in public housing in the country. But now the city is facing financial difficulties and it is becoming increasingly difficult for the police department to give this program the same level of services it has had in the past. Under HUD PHDEP definitions, the Upland Housing Authority is not "technically" eligible to receive funds to continue this successful program. The City of Upland does not stand alone. Every Member of Congress is faced with this same challenge in their districts.

This is a simple case of HUD rewarding housing authorities for doing a bad job and punishing those that have worked to reduce or eliminate the drug problem in their communities. Those successful communities should be able to continue their programs using PHDEP funds.

Assuming Congress funds PHDEP in FY 2002, Mr. Secretary, I urge you to consider a regulatory change to PHDEP to modify the eligibility criteria to recognize local housing authorities, such as the City of Upland Housing Authority, and their partners who have successfully reduced crime in their jurisdictions but need continued funding to maintain anti-crime programs to sustain reduced levels of crime.

Further, HUD's argument that ending PHDEP makes sense, because it can be replaced at the local level with Capital Funds or Operating Funds is not realistic. Under this scenario, the Upland Housing Authority would be forced to choose between public housing routine maintenance, or much needed rehabilitation and improvements in order to continue a PHDEP-type program. And there are few, if any, housing authorities in this country that do not need

physical improvements to their dwelling units. Even though the Capital Funds are fungible, and public housing authorities are authorized to take some of the moneys to pay for programs such as PHDEP, it would be done at the expense of much needed maintenance and rehabilitation to the dwelling units. In most cases, housing authorities simply could not justify funding a PHDEP-type program, if it means not putting on a new roof, installing new refrigerators, or repairing leaking gas and water lines.

Another invalid HUD argument is that housing authorities can easily use evictions as an alternative to a PHDEP program in order to keep drugs and crime out of public housing.

In FY 2000, the Upland Housing Authority received its first PHDEP grant of $25,000 — only because, under the new HUD criteria for PHDEP funds, a housing authority can also qualify for such a grant if it is located in an area where there are no separate statistics for crime. Through this"loophole" the Upland Housing Authority currently receives the minimum $25,000.00 per year in PHDEP funds.

The Upland Housing Authority uses a large portion of their PHDEP funds for education and crime and drug prevention programs for their youth and adults. They truly believe that if they can maintain programs that keep the children in their public housing complex out of gangs and drug involvement, they are saving government a great deal of money — not only are they successfully dealing with a criminal element in public housing, but the young people in their public housing complex will not end up in the criminal justice system and maybe costing the American tax-payer far more money to house them in jails and prisons.

The Upland Housing Authority put the first year's PHDEP grant to good use — it paid for tenant screening (i.e., criminal history checks for all adult members of applicant families) and for drug prevention and education programs. Out of the $25,000 grant, $21,000 was paid directly to the police department for criminal history checks and to carry out the special crime prevention programs. As a result, the Upland Housing Authority has not evicted a single tenant for drug related criminal activity in several years.

The Upland Housing Authority simply does not have enough funds in their operating budget to pay for background searches and fingerprint clearances for all adult family members who apply for public housing. As it is, the Upland Housing Authority pays out-of-pocket (i.e., operating fund) for credit checks and unlawful detainer checks for each family applicant. For the small Upland Housing Authority (i.e., 97 units of public housing) and an average of two vacancies per month, they screen 10 families in order to find 1 family applicant that qualifies for public housing. And the reasons nine of 10 family applicant are turned down by the Upland Housing Authority for public housing are due to negative credit checks, unlawful detainer checks, or criminal history checks — not because these family applicants are not classified as low-income.

If the Upland Housing Authority rented public housing to every family applicant that meets the income and family composition test only, 90 percent of those family applicants would have a negative credit/eviction or criminal history and would most likely become a problem and the housing authority would ultimately evict them. As expensive as the preliminary screening is

— the housing authority spends an average of $50.00 per adult family member — eviction is far more costly and much more difficult to defend in court. The costs associated with an eviction, such staff time, police time, court costs, and attorney fees, are at least $3,000.00 per family. Additionally, there are, of course, vacant units to deal with, and often the units are left in very poor condition by a tenant that is not happy about being evicted; and rent goes unpaid during the lengthy eviction process. Clearly, this type of tenant eviction scenario is far too costly to a housing authority to constitute a reasonable alternative to a sound PHDEP program to keep drugs and crime out of public housing, particularly one that includes a tenant screening component.

Without the PHDEP program, Upland Housing Authority would face five to 10 evictions per year due to criminal and drug related criminal activity. If they were to spend $3,000 to $5,000 in eviction related expenses, including the cost of repairing units after evictions, rent expenses and rent losses for those vacancies, they would probably spend out-of-pocket between $15,000 to $50,000 per year just to evict families. And, of course, with each eviction notice, Upland Housing Authority must hope that the court will support their action based on their ability to garner sufficient evidence to successfully argue their eviction.

Even as the Upland Housing Authority works with the local police department to put together a case for eviction, the criminal element may continue activities that dramatically decrease the quality of life in the housing complex. As a result, decent families suffer and often move out to get away from the crime, causing the neighborhood to further deteriorate. Eviction should be viewed as a tool of last resort — it should not be the primary means used by public housing authorities in fighting crime and drugs in public housing.

HUD Reform

I want to take advantage of the Secretary's first official appearance before this committee to address another important, but fundamental systemic problem.

Mr. Secretary, I have a concern with how the federal government, through HUD, is losing money by keeping large inventories of foreclosed Federal Housing Administration (FHA) houses. And I have a concern with how HUD sometimes contributes to inner city blight through failing to maintain their properties. By just looking around our neighborhoods, especially the poorest of our neighborhoods, we see the monuments to HUD's shortcomings; boarded-up homes and buildings owned by the federal government.

I would like to take this opportunity to present specific examples of how HUD is failing the American people, as well as suggestions for how HUD could become an agency that successfully fulfills its public trust.

HUD has a problem:

- **FHA mortgage insurance paid almost 77,000 claims worth about $6 billion in 1998.** That cost is passed onto the consumer through higher premiums.

- In 1997, single family homes stayed in the Federal inventory for an average of 5.4 months. In 1998, the average time in inventory increased to 6.6 months, and last I checked it was still increasing.
- In 1996, HUD had 25,000 single family properties in inventory. In 1998, the inventory had increased to 40,000, and as of June 30, 1999 HUD had 50,000 properties in inventory.
- The HUD single family inventory was valued at $1.9 billion in 1996. It increased in value to $3.3 billion in 1998.
- **15% of HUD's property is held in inventory more than 12 months.** That is compared to the industry average of between 2% and 3% in inventory more than 12 months.
- In 1996, average loss per property was $28,000. In 1998, the average loss had increased to $31,700 (12% increase), and as of June 30, 1999 the average loss number was $32,470. **If you multiply the 50,000 properties in inventory by the average loss of $32,470, that is a loss of more than $1.6 billion.**

This is not just a theoretical problem for my Congressional District and many Congressional Districts throughout the country.

In my career as a builder and now as a Member of Congress I have worked with HUD to find a solution to this problem.

I feel that the current laws are sufficient to address our nation's housing crisis. Unfortunately, the former Secretary of HUD did not adequately understand the issues that face the housing industry. In order to have true reform, HUD needed a change in leadership. During your watch, Mr. Secretary, I believe we have an opportunity to restore the public's trust in HUD.

The Federal Government has clearly recognized home ownership and the provisions of down payment assistance as a government priority by initiating a National Home Ownership Strategy.

The National Home Ownership Strategy states that:

"Because homebuilding and home ownership contribute to national prosperity, the expansion of home ownership in this nation has been supported for many years by public-private partnerships. From the Homestead Act of 1862 to the GI Bill of Rights of 1944, key federal government innovations such as the Federal Housing Administration (FHA), Department of Veterans Affairs (VA), home loan guarantee programs, Department of Agriculture's Rural Housing and Community Development Service, Federal Home Loan Bank System, Fannie Mae, Ginnie Mae, Freddie Mac, and others have mobilized private capital to enable the average working family to buy a home with little or no down payment".

Federal Law currently requires general local government entities or non profits be given preference for the sale of HUD owned single family assets which are located in HUD Revitalization Areas.

As you know, many cities throughout our country have substantial HUD owned

inventories within their jurisdiction. In my own Congressional District, I have problems with excess HUD property hurting communities. When I last checked, the City of Pomona, California had in excess of two hundred properties in their HUD inventory. And local officials are frustrated with the excessive number of boarded-up properties in their neighborhoods.

To find a solution to this problem, I assisted the City of Pomona, California in developing a proposal to sell this property as soon as possible. The city submitted their plan to former Housing Secretary Andrew Cuomo for approval. The proposal requested that the City take control of all HUD owned housing inventories within their boundaries, including all future inventories, and perform the ongoing maintenance of the property. They are legitimately frustrated by lack of control over their own communities.

HUD's solution to the problem was to establish a National FHA Marketing and Management Contract with various private sector service organizations to administer its inventories. In February of 1999, all of California's HUD housing programs, including the administration and maintenance of the properties, were placed under the direction of Golden Feather Realty. Under their direction, properties are listed well above market value. Additionally, Golden Feather Realty does not adjust the prices, as required by HUD, after the property is on the market for more than 45 days. Another problem is that the buyers are frequently finding the properties erroneously listed with a designation of "Insured with Repair Escrow," when in reality there are significant health and safety repairs needed in order to purchase the property that far exceeds the $5,000 dollar threshold for this designation.

While I support the privatization of government functions, I feel this type of privatization creates nothing but a monopoly without oversight. HUD does not seem concerned that Golden Feather Realty does not maintain the properties, mislabels the properties, and the final analysis does not sell the properties in a timely manner.

I feel that the best long term solution for this ongoing problem is to empower cities across America to implement a comprehensive revitalization plan. The plan should address the impact of HUD's eligible assets and other foreclosures within their respective city's boundaries. Each city's revitalization plan should include taking immediate control through the management of the eligible assets in return for the city and or its approved nonprofits/contractors receiving deep discounts from HUD for the purchase of those assets within the City's boundaries. I feel the cities have a vested interest to maintain the foreclosed properties. I also believe this program will help cities address the shortage of affordable housing that so many of our communities face. In the final analysis, the appearance of our communities will improve, HUD will save a tremendous amount of money by removing foreclosed homes from their inventory, and more people will be able to realize the American dream of home ownership.

At HUD, there is also a rampant problem of lack of grantee oversight and insufficient internal controls. HUD does not monitor grantees in a systematic manner. HUD do not hold the grantees accountable by failing to monitor the ones that receive the worst evaluations. Sometimes HUD just continually monitors the grantees that happen to be near their offices instead of looking for the ones that are high risk. Accountability is just not a priority for HUD. As a developer, I have personal experience with the corruption that infects HUD and HUD

grantees, because of the lack of accountability. Large amounts of money and lack of control breeds corruption and graft.

HUD also sets up great deals that have zero risk for developers, because the government and the taxpayer bears 100% of the risk. For example, if HUD is subsidizing the building of a multifamily property, giving the tenants money to pay the rent, and also providing the insurance in case something goes wrong, what is the risk for the builder? As a developer myself, I understand the need to make a profit, but I never expected the government to take 100% of the risk on anything I built. The developer would be crazy not to take a deal with no risk, and HUD is crazy for structuring a deal where the federal government takes all the risk.

Beyond specific management and oversight problems, HUD has an ingrained philosophical problem:

HUD measures success by how much money it pushes out the door — efficiency and accountability are a secondary priority.

All the reform plans, and all the management binders filled with good ideas and systems, will do nothing as long as HUD values giving money away over efficiency.

Mr. Secretary, you have a big job ahead of you, and I must say that I don't envy you. Of course, you need to address all the specific managerial and systematic problems, but more than anything the measure of success at HUD needs to be changed to accountability and efficiency.

During the previous Administration, HUD did not think they were doing anything wrong. HUD thought they needed only to fine tune management and improve their organizational structure, but beyond that their attitude was one of being unjustly persecuted by any criticism leveled at them. HUD also measured their success by the fact that they did not spend General Fund dollars on their programs. They touted that they returned money to the Treasury to pay for other programs, but they failed to understand that they could do so much more for the people of this country. Built into the rates they charged their consumers was the waste and inefficiency represented by the statistics at the beginning of this letter. In the name of Compassionate Conservatism, we should be able to do better to serve the Americans who need help to obtain affordable housing.

Mr. Secretary, I suggest the following reforms in HUD:

- First of all, change the "culture" of HUD by rewarding efficiency instead of rewarding pushing money out the door.
- Focus on the product and lower cost to the end consumer instead of focusing on funding.
- Give more control to local communities in the task of selling HUD properties. Local communities want small, well-maintained inventories and are harmed by boarded-up HUD homes in their cities.
- Create a system to hold grantees accountable. Make sure the system keeps good information on the grantees. Make sure the system has a logical, structured approach to

checking the high risk grantees through frequent on-site monitoring.

- Develop a new flexible, usable Information System based on accountability so field employees have the information they need to create accountability.
- Encourage private, nonprofit organizations that provide financial assistance for down payments and help people afford home ownership.
- Redesign HUD partnerships with private developers to make sure the taxpayer is not bearing 100% of the risk in building affordable housing. We can still make it a good deal that will attract builders, but there needs to be a sharing of the risk.

In addition, government should also look at the private sector to facilitate home ownership wherever possible. One such organization that I am proud to be an advisory board member of and has received national recognition is the Housing Action Resource Trust (HART), a 501(c) (3) nonprofit affordable housing development corporation. HART has created a down payment assistance program which has assisted over 3,000 families achieve home ownership. HART has generated over $18 million dollars in down payment assistance gift money and facilitated over $1 Billion in first mortgages, in less than eight months. All of this has been achieved with out government money and now has the nationwide approval from HUD and the Veterans Administration.

HART is also actively involved in other housing activities such as, the purchase of multi-family units, construction of new affordable housing developments and the acquisition and rehabilitation of existing dwellings in blighted and revitalization areas. HART has currently expanded its current operation to 250 cities in 21 states.

In conclusion, I feel we must establish through HUD an efficient system that will expedite the transferring of properties to our local communities. It is time to lift the burdens of government regulation and give each community the ability to establish the partnerships between local non profits, local contractors, and the government agency charged with the administration of the HUD owned inventories. If we are successful we will begin to help our first time home buyers and lower income families realize the American dream of home ownership.

President Bush has spoken eloquently about expanding our country's economic success to those who have been left behind.

Mr. Secretary, that principle now needs to be applied to HUD and affordable housing. As a developer for over 30 years and now as a Member of Congress, I see that HUD needs to be accountable to its customers, just like a business is accountable.

I look forward to working with you, Mr. Secretary, in the future on much needed reforms to this Department — HUD has so much unrealized potential to help those who need it most.

Thank you, Madam Chairwoman. I yield back the balance of my time.

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Opening Statement for Hearing on HUD FY 2002 Budget
Financial Services Subcommittee on Housing and Community Opportunity
April 26, 2001

Good morning. I would like to thank Chairwoman Roukema and Ranking Member Frank for holding this important hearing and also Secretary Martinez for his testimony today. I look forward to working with you over the course of this Administration.

As we all know, the lack of affordable housing is a national crisis. According to HUD's report entitled, "Worst Case Housing Needs," 4.9 million families pay over 50 percent of their income for rent or live in severely substandard housing. Furthermore, the prosperity of the last eight years has not diminished the problem of housing affordability. Rather, in many urban areas, skyrocketing rents are exacerbating the problem.

Furthermore, although homeownership rates are at an all time high, minority homeownership continues to lag far behind the national average. While 67.7 percent of all American households own their own homes, significantly less than half of Latino and African American families have achieved this essential piece of the American dream.

Given these continuing problems in the housing arena, the HUD budget proposed by the Administration for FY 2002 is woefully inadequate. I am very interested in hearing about the proposed funding

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levels for several programs which are crucial in my district in New York City and how the Administration is reconciling its ideas of compassionate conservatism with its proposals to cut and underfund several crucial programs for our most vulnerable citizens.

First, I am highly concerned by the lack of incremental Section 8 vouchers proposed in the Budget. The need for the Section 8 vouchers is so overwhelming that the New York City Housing Authority closed the waiting list for this program in December of 1994. No other applications have been accepted for 76 months. Yet despite this drastic measure, as of March 1st of this year, there were still over 156,000 families on the Section 8 waiting list in New York City. This means that at the President's proposed level of funding, it would take over four and a half years just to eliminate the six year back-log in New York City. The current waiting list in Chicago also exceeds the number of vouchers proposed for FY 2002.

HOPWA received only minimal increases of about $20 million, yet the number of cities eligible for funding under this program will be increased. I fully support the expansion of this program. The HIV/AIDS epidemic is crippling many urban and minority communities and stable housing is critical to the success of the drug regimen necessary to control the illness. Studies show that people currently living in HOPWA housing are living longer. The addition of new cities to the list of eligible HOPWA recipients is a commendable and important decision. However, we must increase the funding enough to provide for these localities and simultaneously at least maintain the funding being received by cities already in the program.

Another program I am deeply concerned about is the Drug Elimination Program. The decision to terminate DEP was justified by the Administration by claiming that the program is redundant and ineffective. Yet we have never been presented with any statistical evidence to support

this claim. Rather, any time a question is raised we are regaled with anecdotal arguments. This is a $309 million cut. HUD has claimed that they expect the PHAs to use the $150 million increase in Operating Subsidies on a wide range of programs, including continuation of successful drug-elimination programs.

At the same time, HUD is saying that they expect the $150 million operating subsidy increase to help to offset the rising utility costs. Analysts project that these costs could rise as much as another $300 million this year. I would be interested to learn how the Administration proposes to cover two separate costs of $300 million each with a single $150 million appropriation.

I frequently hear from my constituents that increased availability of affordable housing is a top priority. Yet, it is an issue that was largely ignored over the course of the 2000 Presidential Campaign. There is a great deal of support in Congress for a new housing production program, which would be geared towards meeting these needs. However, Secretary Martinez has stated that he would oppose the creation of such a program. I am curious to hear how HUD would propose to meet increasing demands for affordable housing without instituting a production program.

This budget fails to meet the basic needs of our most at-risk citizens. With the full scale elimination of two programs and the budget cutting and flat funding for several more, I can not understand how the Administration can sell this as an increase. It just doesn't follow. Largely, HUD programs are designed to help our lowest income families find housing and to springboard lower-middle income families to the dream of homeownership. It is essential that we do more to help those in greatest need rather than effectively throw up additional barriers, as this budget does.

STATEMENT BEFORE THE HOUSE COMMITTEE ON FINANCIAL SERVICES

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

APRIL 26, 2001
WASHINGTON, D.C.

BY

SECRETARY MEL MARTINEZ

Chairman Roukema, Ranking Member Frank, and distinguished Members of the Committee, thank you for this opportunity to discuss the Department of Housing and Urban Development's budget for fiscal year 2002.

I am both humbled and energized by the challenges that face us, in this Department and this nation, as we work to improve housing and expand opportunities for families seeking to move ahead. President Bush and I are committed to restoring the confidence of the Congress, the Department's constituents, and the American people in the operation of this Agency.

This budget is the first step toward restoring that confidence. It is a compassionate and responsible budget that will allow us to serve people more effectively, empowering individuals and communities across this great land.

We cannot face this challenge alone. We look forward to the support of this Congress and particularly this Subcommittee to accomplish this.

The American Taxpayer will measure our success not by how much money we spend, but by how many families have a better home, by how many immigrants get the chance to buy their first house, and by how many children grow up in the kind of neighborhood we all want to live in.

Our existing programs must operate efficiently and effectively before we create additional programs. Over the past two decades, the Department has grown to include more than 300 programs. Simply adding new government programs does not necessarily improve the lives of the citizens who need the most help.

The Administration's overall growth for federal spending of four percent is a responsible and appropriate level. Nevertheless, the President also recognizes that we have an obligation to increase homeownership opportunities and serve those that cannot afford decent housing. The Department of Housing and Urban Development's proposed budget requests an increases of nearly seven percent in budget authority for fiscal year 2002.

Buying a home is the biggest investment most families ever make. By building equity in a home families can pass on wealth from one generation to the next, can provide for child's higher education, or can access venture capital for small businesses --- all the while strengthening their communities. All Americans should have these opportunities, no matter the color of their skin.

Nearly 70 percent of all families have come to realize the American Dream and own their own home. Yet, despite this record number of homeownership, there are still communities that lag behind: less than half of African-American and Hispanic-American families own their homes.

We can do better. We need to tear down barriers to homeownership for families that are financially able to sustain homeownership. President Bush's budget includes three new homeownership initiatives to expand opportunities for hundreds of thousands of low-income and minority families.

The "American Dream Down Payment Fund" provides $200 million to match down payment assistance, helping more than 130,000 low-income families overcome the single greatest obstacle to homeownership. President Bush also proposes a tax credit to support the rehabilitation or construction of at least 100,000 homes for low-income families over the next five years. The Administration will seek authority to offer low-income families new adjustable-rate mortgages that protect new homebuyers from dramatic changes in market rates until they can establish an economic foothold.

The American Homeownership and Economic Opportunity Act of 2000 provided low-income families the ability to use rental vouchers for down payment on a home. President Bush proposes to make this provision permanent and not subject to appropriations, enabling the Department to help more low-income families become homeowners. This builds on the existing authority to use vouchers for mortgage payments.

Finding affordable and decent housing continues to be a problem for many Americans. Almost five million very low-income renter households have "worst case needs" for rental housing. While this number represents an eight percent decline from 1997 to 1999, it is still unacceptable.

In order to expand the production of affordable housing, President Bush proposes to raise the limits for FHA multi-family insurance by twenty-five percent. This is the first increase in nearly ten years and will help spur the development of affordable housing in moderate to high cost urban areas.

We are strengthening our traditional obligations to public housing by increasing the public housing operating budget by $150 million. This money can be used by local housing authorities to fund those programs that best meet urgent needs, including the rising costs of utilities.

President Bush and I are also continuing our strong commitment to helping families with the costs of rental housing through Section 8 housing vouchers. This budget renews all expiring Section 8 contracts at a cost of $15.1 billion – an increase of $2.2 billion over fiscal year 2001 – and funds an additional 34,000 Section 8 housing vouchers at an additional cost of nearly $200 million.

The budget proposal does not request as many new housing vouchers as in previous years for two reasons. First, we cannot continue to increase the Department's budget each year by 12 to 16 percent. At the previous year's rate of increase, our budget would surpass $100 billion by 2010. Second, there has been a serious problem with the utilization of existing Section 8 vouchers by state and local agencies and some vouchers do not get used as quickly as they

should. I will work with Congress to improve the utilization of Section 8 vouchers by state and local housing agencies.

Vouchers are more than just a piece of paper; for many families they are the first step in the process of greater economic opportunity and homeownership. There are two issues regarding the voucher utilization problem: making vouchers easier to use and improving the management capacity of local housing agencies. First, we should take additional steps to ensure that more families are able to use their housing vouchers. While vouchers work well in most markets, there is growing evidence that families are having difficulties using vouchers in certain markets. We should resolve that.

Although market conditions affect the utilization of vouchers in different areas, under-utilization is ultimately a management issue. Good managers can overcome difficult market conditions and ensure that all of their vouchers are used. I plan to work with housing authorities to help them become better managers so that they can serve more families. We can do this through a combination of management techniques: fully employing the Section 8 Management Assessment Program (SEMAP) that gives substantial weight to utilization rates, giving priority in fund allocation to housing authorities with high utilization rates, and implementing HUD's new authority to make some vouchers project-based.

While we focus on our goal of improving housing opportunities, this budget does not neglect the Department's traditional role of supporting community and economic development. Much of this support is carried out by the Community Development Block Grant (CDBG) Program and this Administration continues strong support of this important program. CDBG will receive almost $4.4 billion in funding for formula grants to meet the specific needs of local governments. CDBG funds locally developed programs that revitalize communities and help spur economic growth.

I would like to point out that, while we have kept funding for CDBG formula grants at historically high levels, the new Census data will inevitably result in changes in the funding level for each community. Some communities will get more money and some will get less. I emphasize this to explain why, even though the funding level for CDBG formula grants is kept constant for fiscal year 2002, some communities will experience a reduction in funds. Others, of course, will experience an increase. Any estimates that we generate at this time rely on the old Census data and are subject to change.

In addition to the $4.4 billion in formula funding for CDBG, we will provide $80 million in grants to help create or expand community technology centers in economically distressed communities and provide technical assistance to those centers. Through these centers, low- and moderate-income individuals will have access to computers and technology that will improve their educational opportunities and job skills. We cannot sustain homeownership without greater economic self-sufficiency. President Bush and I are committed to beginning to close the digital divide so that low- and moderate-income Americans are not left further behind. Every American deserves the opportunity to succeed in the 21st century workforce.

The President's proposed budget strongly recognizes the needs of the most vulnerable people in our society – the elderly, persons with disabilities, the homeless and individuals with AIDS. All of HUD's programs that provide assistance to these vulnerable populations will receive funding at or above current levels.

The budget increases funding for elderly housing programs by $6 million to $783 million. The largest Department program targeted to the elderly is the Supportive Housing for Elderly Program, which provides capital advances to finance the construction and rehabilitation of supportive housing for low-income senior citizens, including converting some properties to assisted-living facilities for frail elders. This program also provides the elderly with rent subsidies to help make living in these homes affordable.

To assist those with disabilities, we also fully fund the Supportive Housing for Persons with Disabilities Program, as well as providing an additional $20 million to fund the "Improving Access Initiative." This proposal will assist those non-profit groups and community organizations across the country that are exempt from the Americans with Disabilities Act, but who still want their facilities to be accessible to persons with disabilities.

In addition, we are funding at current levels – $1.123 billion – homeless assistance programs. These not only aid those with the most pressing need for shelter, but provide services, temporary housing and permanent housing to reduce homelessness. For those who lack adequate shelter, our goal should be to end chronic homelessness by getting people the help they need. At HUD that means increasing the availability of permanent housing. This agency is committed to continuing its homeless programs, but in the future we see ourselves spending more of our resources on permanent housing, and less on social services. We will work with HHS to reduce the barriers that prevent the homeless from accessing much-needed social services for which they are eligible.

Housing Opportunities for Persons with AIDS – also known as the "HOPWA" program – will see its budget increased by an additional $20 million, for a total of $277 million. These grants, provided to state and local governments, help low-income individuals stricken with AIDS find housing assistance, as well as support services.

This budget also recognizes the damage done by lead-based paint, especially to young children. The Administration increased funding for lead-based paint hazard reduction by $10 million. I want to do everything I can to ensure that our children are protected from such dangers so that they can grow up in safe and healthy homes. Since the late 1970s, incidents of lead poisoning have declined from 3 million to 890,000. Yet despite this progress, lead poisoning remains one of the most common diseases our children face. The solution lies in preventing lead-based paint hazards in housing.

The Department of Housing and Urban Development has been leading the effort to eliminate lead-based paint hazards in our Nation's housing stock. Our lead-based paint grant program, which began under the first Bush Administration, now funds lead hazard control operations in over 200 jurisdictions across the Nation. Since HUD cannot solve this problem

alone, this additional money will go into a special grant program that will leverage more resources from the private sector to meet the needs of our children.

The President also increased the amount of funds available for fair housing enforcement. If this Agency is to fulfill its mission of increasing homeownership and affordable housing opportunities for all citizens, we must pledge ourselves to the principles embodied in our fair housing laws.

While most of the Department's programs are funded at last year's historically high levels or have received a slight increase, there have been a few well-publicized reductions. Let me take a few minutes to address these specific reductions.

One such program is the Public Housing Drug Elimination Program. Though no one can argue with the good intentions behind this program, unfortunately it suffered from a large number of abuses. Not only did the Inspector General find that it was nearly impossible to measure the program's effectiveness, but she has also criticized the program for funding activities such as unauthorized travel, bank loans, and Christmas parties.

Some funds were used by the Department to implement a gun buy-back program, which the Comptroller General concluded was not a legal use of funds. Drug Elimination funds were also spent to provide public housing residents with "creative wellness" programs. These scientifically questionable programs are a significant diversion from this Agency's mission and undermine public support for HUD's programs.

We need to restore confidence that the Department of Housing and Urban Development can carry out its core mission. We are not a law enforcement agency or an agency with expertise in dealing with drug abuse. To the extent that there are law enforcement issues surrounding our public housing projects, we will work with the Justice Department and state and local police departments. To the extent that there are drug problems in public housing, we will work with those federal, state, and local agencies that are in a much better position to address these problems.

Although we have eliminated this $309 million program, we have taken, as I mentioned earlier, $150 million of those funds and placed them in the Public Housing Operating Fund. This extra $150 million can be used for a wide variety of purposes, including the continued funding of successful anti-drug efforts. But rather than mandating that housing authorities use this money for drug elimination programs, we trust these authorities to make those tough decisions about what programs best meet their needs.

As an example, if a certain housing authority found that fences, lighting, and greater police patrols funded by the Drug Elimination Program helped reduce crime and drug use, then it will have the opportunity to continue funding these worthwhile programs from the additional $150 million in the Operating Fund. Good anti-drug programs in our public housing projects will continue to find funding, while we filter out the waste and abuse that tarnished a program that began with such noble intentions.

Another reduction in our budget occurs in the Public Housing Capital Fund. Our fiscal year 2002 budget provides nearly $2.3 billion for the fund, which is a reduction of $700 million from the previous fiscal year. This money is sufficient to cover 100 percent of the modernization needs of housing authorities that are expected to accrue next year.

The purpose of this reduction is to draw down Capital Funds that have already been appropriated, but not yet expended by public housing authorities. Currently, there is $5 billion in unspent Capital Funds from FY 2000 and previous fiscal years. These figures do not include the $3 billion that was appropriated for fiscal year 2001. Once the Department distributes fiscal year 2001 Capital Funds, and approves plans for the use of those funds, housing authorities will have a total of $8 billion in unspent Capital Funds available to meet their modernization needs.

These billions of dollars of unspent Capital Funds ensure that no roof at any public housing project has to go unrepaired, and no severe modernization need has to be neglected. Public housing authorities currently have the funds that are necessary to begin addressing the backlog of modernization needs. Our fiscal year 2002 budget encourages them to spend those funds to address their priority needs.

We are not just looking to housing authorities for solutions to the problem of unspent funds. We are also examining the Department's practices to determine whether funds are distributed and spent in a timely manner. Among other steps that we plan to take is a change in the timing of our initial allocation of funds to housing authorities, ensuring that they get funds sooner than in prior years.

I look forward to working with the Congress on the many issues facing the Department of Housing and Urban Development. Congress is now conducting two important commissions – the Millennial Housing Commission and the Commission on Affordable Housing and Health Care Facility Needs in the 21st Century. The Department is ready to offer any assistance it can to aid the work of these two commissions. I look forward to working together to assure that the Department of Housing and Urban Development can efficiently and effective meet America's housing and community development needs.

U.S. Department of Housing and Urban Development
Secretary Mel Martinez

Fiscal Year 2002 Budget Summary

hud

Message from Secretary Martinez

Housing and community revitalization are at the heart of the Department's mission. President Bush and I are committed to making HUD's mission a success. That is why our proposed $30.4 billion budget for fiscal year 2002 builds on the Department's core programs and strengthens areas of weakness and high risk.

Our goal is to establish a solid foundation that will enable HUD to be a leader in management reform, an effective partner at the grassroots level, and a strong voice in the debate on the challenges that new growth and prosperity can bring. With increased funding for key programs and sensible reductions in duplicative or inefficient programs, we will work with local and state officials, non-profit and faith-based organizations, low-income housing advocates and industry groups to expand the supply of affordable housing. Together, we can give more Americans the opportunity to own a home, and empower communities across the country so that every neighborhood, every child, every citizen can enjoy the promise of this great nation.

Over the last 10 years, America's prosperity has enabled more families to become homeowners than ever before, yet minority families continue to struggle, less than half of African-American and Hispanic-American families own their own home. Four new initiatives proposed by the President will give hundreds of thousands of Americans the key to the American Dream: homeownership.

- *The American Dream Downpayment Fund.* The fund will provide $200 million within the HOME program to match downpayment assistance and help more than 130,000 low-income families overcome their greatest obstacle to homeownership.

- *Section 8 Homeownership.* HUD will help low-income renters by expanding the use of Section 8 vouchers for homeownership. Voucher-holders will be able to use up to 1-year's worth of Section 8 assistance for the downpayment on a home, or use their vouchers to make ongoing mortgage payments.

- *Renewing the Dream Tax Credit.* To further promote homeownership opportunities, the Administration will propose a $1.7 billion tax credit to support the rehabilitation or new construction of an estimated 100,000 homes for purchase by low-income households over a 5-year period.

- *Hybrid Adjustable Rate Mortgages.* For FY 2002, HUD will seek authority to allow FHA to offer low-income families a hybrid adjustable rate mortgage, reducing families' initial homeownership costs by combining a low fixed rate in the early years with a rate that later adjusts with the market.

The FY 2002 budget includes important initiatives to help meet the need for affordable rental housing. The budget will add 34,000 new housing vouchers at a cost of $197 million, and renew all expiring Section 8 contracts – for 2.7 million families – at a cost of $15.1 billion, a $2.2 billion increase over the previous year's budget. HUD also has proposed that the limits for FHA multifamily insurance be increased by 25 percent – the first increase since 1992. Increasing the limits will help spur new production and substantial rehabilitation of affordable rental housing that had been dramatically slowed by increased residential construction costs.

HUD will vigorously enforce the nation's fair housing laws to help assure that every American has fair and equal access to decent, affordable housing. Our 2002 budget includes an increase in funding to step up the fight against housing discrimination. We will also be aggressive in combating predatory lending which primarily impacts elderly and minority Americans.

Because many faith-based and other non-profit organizations are effective in solving local problems – from homelessness to housing for seniors – this year we will identify the barriers that prevent faith-based organizations from full participation in HUD programs. We strongly believe that partnering with faith-based groups will make a dramatic difference in how we meet the needs of the underserved.

Finally, we must look to the future. During FY 2002, HUD will develop a long-term strategy to be prepared for anticipated retirements expected over the next several years. Currently, the average HUD employee is 50 years old with 17 years of Federal service. To ensure our ability to deliver our programs effectively, we must develop a strategy to meet the needs of our changing workforce.

Our goals are high, but the focus of our budget is clear – our mission is people not programs. Our priorities are strengthening program oversight and efficiency with a goal to provide every American with the tools to achieve their homeownership dreams.

Mel Martinez
April 9, 2001

Executive Summary

For FY 2002, the President has proposed a compassionate yet responsible budget for the U.S. Department of Housing and Urban Development (HUD). The budget is compassionate in providing nearly $2 billion in additional funding to promote homeownership among low-income and minority families, to expand the number of families served by HUD's rental subsidy programs, and to cover the increased costs of HUD's existing housing programs. At the same time, the budget emphasizes responsibility by slowing the overall growth in HUD's spending, minimizing the number of new initiatives that undermine HUD's capacity to administer its core programs and taking steps to improve the efficiency of HUD's existing programs.

Overall, the FY 2002 budget provides $30.4 billion in funding to support HUD's core mission of providing affordable housing and promoting community and economic development. These funds support seven main activities:

I. Helping Low-Income Families Achieve Homeownership
II. Providing Affordable Rental Housing
III. Building Assets and Skills Among Low-Income Families
IV. Supporting Community and Economic Development
V. Meeting the Needs of Special Populations
VI. Enforcing the Fair Housing Laws
VII. Ensuring Responsible HUD Staffing and Program Support

I. Helping Low-Income Families Achieve Homeownership. Homeownership plays a vital role in creating strong communities by giving families a stake in their neighborhoods and helping them to build wealth. Although a period of sustained economic growth has helped to raise the overall homeownership rate to a record level, the homeownership rates of minorities and low-income families lag far behind those of other families.

Many of HUD's core programs, including the HOME Investment Partnerships Program, Federal Housing Administration (FHA) mortgage insurance and the Community Development Block Grant (CDBG) program, help low-income families to achieve the goal of homeownership. In addition to continuing to fund and improve these programs, HUD plans to expand its efforts to promote homeownership in FY 2002 through the following initiatives:

- *The American Dream Downpayment Fund* will provide $200 million within the HOME program to match downpayment assistance provided by third parties. The inability to afford a downpayment on a home is the biggest single obstacle to homeownership. This program will help more than 130,000 low-income families to overcome this obstacle and achieve homeownership.

- *Section 8 Homeownership*. As promised during the President's campaign, HUD will help low-income renters become homeowners by expanding the use of Section 8 vouchers for homeownership. Under soon-to-be-published regulations, voucher-holders will be able to use up to 1-year's worth of Section 8 assistance for the downpayment on a home.

Alternatively, families will have the option of using their vouchers to pay the ongoing costs of a mortgage.

- *Renewing the Dream Tax Credit*. To further promote homeownership opportunities, the Administration will propose a $1.7 billion tax credit that will support the rehabilitation or new construction of an estimated 100,000 homes for purchase by low-income households over a 5-year period.

- *Hybrid Adjustable Rate Mortgages*. For FY 2002, HUD seeks authority to allow FHA to offer low-income families a hybrid adjustable rate mortgage. These mortgages will reduce families' initial homeownership costs by combining a low fixed rate in the early years of the mortgage with a rate that adjusts with the market thereafter.

II. Providing Affordable Rental Housing. While seeking to expand homeownership opportunities, HUD recognizes that homeownership may not be practical for all families, especially families at the bottom of the income scale. To help low-income families afford the high costs of rental housing, HUD provides subsidies to more than four million households nationwide through a variety of programs, including the tenant-based and project-based Section 8 programs and public housing.

The following are some of the key features of the FY 2002 budget that help families afford the costs of rental housing:

- *Section 8 Contract Renewals*. In FY 2002, HUD will provide $15.1 billion to renew all expiring Section 8 contracts. As long-term Section 8 contracts expire, the number of contracts that need to be renewed each year (and the funding required to do so) increases. The cost of renewing the 2.7 million expiring Section 8 contracts in FY 2002 exceeds FY 2001 renewal costs by $2.2 billion.

- *Section 8 Incremental Vouchers*. To help reduce the large unmet need for affordable rental housing, the FY 2002 budget includes $197 million in funding for approximately 34,000 additional housing vouchers. These vouchers will be distributed through the Fair Share allocation system to state and local housing agencies that have demonstrated an ability to effectively use their existing vouchers.

- *Public Housing Operating Fund*. To accommodate increased utility costs and other public housing needs, including the need for crime-prevention activities, the FY 2002 budget proposes to increase the public housing operating fund by $150 million to $3.385 billion.

- *Increasing FHA Multifamily Loan Limits*. Statutory limits on the amount of FHA insurance for multifamily developments were last increased in 1992. In recognition of the increased cost of residential construction, HUD has proposed that the limits be increased by

25 percent. By expanding the number of multifamily developments that can obtain FHA insurance, this initiative will help to increase the availability of affordable rental housing.

III. Building Assets and Skills Among Low-Income Families. Central to HUD's mission of promoting stronger communities are activities to help low-income working families acquire skills that will increase their earnings and to help families on welfare make progress towards self-sufficiency. HUD also seeks to help low-income families accumulate assets so that they can achieve homeownership, pursue educational opportunities, start a new business, and attain other important goals.

HUD's basic programs contribute to this objective by providing low-income families with the housing stability they may need to focus on obtaining work or increasing their earnings. HUD's homeownership assistance programs also help families to accumulate assets. In addition, HUD has a number of programs that focus directly on building assets and skills among low-income families, including Neighborhood Networks, the Family Self-Sufficiency Program, the Resident Opportunity and Self-Sufficiency Program, Youthbuild, and the Welfare-to-Work Voucher Program.

Key initiatives in this area for FY 2002 include:

- *Community Technology Centers*. Through the Neighborhood Networks program, HUD has helped to create more than 700 computer technology centers in multifamily assisted housing developments and HOPE VI sites throughout the country. Hundreds of additional computer centers operate in public housing and Native American housing. These centers provide an opportunity for low-income children and parents to learn vital computer skills. For FY 2002, HUD will provide $80 million in competitive grants to help communities create or expand computer technology centers in low-income areas.

- *Family Self-Sufficiency (FSS) Program*. Currently serving some 55,000 families in the tenant-based Section 8 and public housing programs, FSS is HUD's chief asset-building program. In FY 2002, HUD will work to expand participation in FSS by providing funds for FSS service coordinators, helping to spread awareness of successful practices, and promoting partnerships between local housing and welfare agencies.

- *Individual Development Accounts.* To further promote asset development among low-income families, the Administration plans to propose a tax credit to financial institutions that match private Individual Development Accounts. These are savings accounts set up by low-income families to help them save for a first home, to pay for education, or to start a business.

IV. Supporting Community and Economic Development. In FY 2002, HUD will continue to support its core community and economic development programs. These programs play an

essential role in helping communities address locally determined development priorities and maintain long-term prosperity. Highlights include:

- *Community Development Block Grant (CDBG) Program.* CDBG provides funding to meet locally identified community and economic development needs. For FY 2002, HUD will continue its strong support for CDBG by funding CDBG formula grants at the FY 2001 level of $4.399 billion.

- *Faith-Based and Community Organizations.* Much of the hard work of housing and neighborhood revitalization is carried out by nonprofit faith-based and community organizations. In FY 2002, HUD will examine its programs and policies to identify ways to strengthen the capacity of these nonprofit groups and to reduce any barriers that may impede their access to HUD funding.

- *Lead-Based Paint Hazard Reduction.* In FY 2002, HUD will increase funding for lead-based paint hazard reduction by $10 million to a total of $110 million. The increased funding will help to leverage substantial additional resources.

- *Growth Management.* Many communities are experiencing rapid growth that requires them to address such difficult quality of life issues as: traffic congestion, the availability of affordable housing, preservation of natural resources and the adequacy and timely provision of the public facilities and services needed to accommodate growth. While these are local issues that require local solutions, HUD has an important role to play at the national level. During FY 2002, HUD will facilitate a national conversation on growth management issues and help to develop tools that local communities can use to better manage their growth.

V. Meeting the Needs of Special Populations. HUD programs provide housing and other essential support to a wide range of populations with special needs, including the elderly, disabled persons, homeless persons and persons with HIV/AIDS. The following are highlights of HUD's FY 2002 budget in this area:

- *Elderly Housing and Services.* For FY 2002, HUD plans to continue its strong support for the elderly by providing $783 million for elderly housing programs, an increase of $6 million over FY 2001 levels.

- *Disabled Persons.* In addition to continuing to fund the Supportive Housing for Persons with Disabilities Program (Section 811) at current levels, the FY 2002 budget will provide $20 million for the Improving Access Initiative. This initiative will make competitive grants available to organizations with limited resources for use in making their facilities accessible to the disabled.

- *Homeless Persons*. The FY 2002 budget continues funding for Homeless Assistance Grants and Shelter Plus Care renewals at the current level of $1.123 billion. In FY 2002, the Department will focus on providing permanent housing solutions to those without homes and work closely with the Department of Health and Human Services and other agencies to identify and remedy the barriers to homeless persons' access to mainstream supportive services programs.

- *Persons with AIDS*. In FY 2002, HUD will increase funding for the Housing Opportunities for Persons with AIDS (HOPWA) program by $20 million to $277 million. This will support an increase in the number of jurisdictions eligible for funding based on projections from the Centers for Disease Control and Prevention.

VI. Enforcing the Fair Housing Laws. HUD is committed to vigorous enforcement of the fair housing laws to help ensure that all Americans have equal access to rental housing and homeownership opportunities. For FY 2002, the Department plans to increase the amount of funding available for fair housing enforcement activities by 16 percent over current levels. The Department also plans further steps to decrease the incidence of predatory lending.

VII. Ensuring Responsible HUD Staffing and Program Support. HUD has made real management reform one of its top priorities for FY 2002. Under the Secretary's leadership, the Department will review staffing levels against program needs to rationalize the distribution of staff resources. The Department will also take steps to improve income and rent determinations to reduce rental subsidy overpayments, improve its oversight of local housing providers, and strengthen the integrity of FHA's internal systems and controls to prevent "property flipping" and other program abuses.

I. HELPING LOW-INCOME FAMILIES ACHIEVE HOMEOWNERSHIP

Homeownership plays a vital role in creating strong communities by giving families a stake in their neighborhoods and helping them to build wealth. Although a period of sustained economic growth has helped to raise the overall homeownership rate to a record level, the homeownership rates of minorities and low-income families lag far behind those of other families.

The most recent data on minority homeownership rates show that, in 2000, the homeownership rate for Hispanic households was 46.3 percent and the homeownership rate for Black non-Hispanic households was 47.6 percent. By contrast, the homeownership rate for the nation as a whole was 67.4 percent, some 20 percentage points above that of Black and Hispanic households. HUD is firmly committed to reducing this gap by increasing the homeownership rates of minority households.

The data indicate that homeownership rates also lag in central cities (51.4 percent) and among households with incomes below the area median (51.5 percent). Since minority households are more likely to fall into these categories, it is clear that their homeownership rates can be raised by improving access to homeownership in central cities and among low-income families.

For FY 2002, the Administration has proposed a number of new or expanded initiatives to improve homeownership rates among low-income and minority families and in central cities. Since the biggest single obstacle to homeownership is the inability to afford a downpayment on a home, two of the initiatives – the *American Dream Downpayment Fund* and the *Section 8 Homeownership program* – focus directly on overcoming this obstacle. A third initiative – the *Renewing the Dream Tax Credit* – will subsidize the costs of homes that are rehabilitated or newly constructed for purchase by low-income households, while a fourth initiative – the *Hybrid Adjustable Rate Mortgage* – will expand access to homeownership by reducing families' mortgage payments in the initial years of a mortgage.

These initiatives are described in greater detail below:

- *The American Dream Downpayment Fund* will provide $200 million within the HOME program to match downpayment assistance provided by third parties. For every dollar provided by a third-party, the program will provide $3, up to a maximum of $1,500 provided against a $500 third-party contribution. Administered by state housing finance agencies, the program will leverage more than $60 million in locally controlled funds and help more than 130,000 low-income families to overcome the downpayment obstacle and achieve homeownership.

- *Section 8 Homeownership*. HUD will help low-income renters become homeowners by expanding the use of Section 8 vouchers for homeownership. Under soon-to-be-published regulations, voucher-holders will be able to use up to 1-year's worth of Section 8 assistance for the downpayment on a home. HUD expects this program to be of particular use to existing

voucher-holders who could afford the ongoing costs of a mortgage but do not have enough savings to cover a downpayment.

HUD is also implementing an alternative approach to Section 8 homeownership, under which the voucher can subsidize ongoing homeownership costs. To accommodate the needs of disabled households, HUD will apply higher income eligibility limits to these households.

- *Renewing the Dream Tax Credit*. The Administration will propose a $1.7 billion tax credit that will support the rehabilitation or new construction of an estimated 100,000 homes for purchase in low-income neighborhoods over a 5-year period. The program, which will subsidize up to 50 percent of project costs, will benefit low-income families living in predominantly low-income communities.

  In addition to working closely with the Department of Treasury in designing the credit, HUD will conduct a thorough review of policies and regulations that may constitute a barrier to the development of affordable single family homes and consider ways to streamline the development process.

- *Hybrid Adjustable Rate Mortgages*. For FY 2002, HUD seeks authority to allow the Federal Housing Administration (FHA) to offer low-income families a hybrid adjustable rate mortgage. These mortgages reduce families' initial homeownership costs by combining a low fixed rate in the early years of the mortgage with a rate that adjusts with the market thereafter. HUD estimates that the introduction of hybrid adjustable rate mortgages will allow FHA to provide mortgages to an additional 40,000 families in FY 2002. It also will yield additional income of $99 million for the FHA and $13 million for the Government National Mortgage Association (Ginnie Mae).

The initiatives discussed above complement HUD's existing homeownership programs, which will be a significant focus of HUD resources and staffing in FY 2002. The main HUD programs that help families achieve homeownership are the HOME Investment Partnerships Program (HOME), FHA mortgage insurance and the Community Development Block Grant (CDBG) program.[1] HUD also works to expand homeownership opportunities through the efforts of Ginnie Mae, programs for Native American Communities, the Self-Help Opportunities Program (SHOP), Housing Counseling and oversight of the Government-Sponsored Enterprises (GSEs) – Fannie Mae and Freddie Mac.

[1] CDBG is discussed under Section IV: Supporting Community and Economic Development.

HOME Investment Partnerships Program (HOME)

In FY 2002, HUD will provide $1.796 billion in total HOME funding, the same as in FY 2001. HOME is a flexible block grant that provides support for local affordable housing efforts. Funds are allocated directly to large cities, counties or consortia of smaller areas (known as "participating jurisdictions") and to States for distribution to other cities and towns. There are currently 594 participating jurisdictions, although that figure is expected to rise in FY 2002.

Recipients of HOME funds have substantial discretion to determine how the funds are spent. To date, approximately 45 percent of HOME funds have been spent on assistance to existing, as well as to new homebuyers, with the balance going to activities that help make rental housing affordable. HOME funds can be used to expand access to homeownership by subsidizing downpayment and closing costs, as well as the costs of acquisition, rehabilitation and new construction. To date, HOME grantees have committed funds to provide homeownership assistance to more than 320,000 low-income households.

In FY 2001, the HOME program received a substantial increase of nearly $200 million (12 percent) over the prior year's level. For FY 2002, HUD will dedicate this increase to the American Dream Downpayment Fund, described above, which is funded as a set-aside within HOME.

Federal Housing Administration (FHA) Mortgage Insurance

FHA insurance continues to be one of the Nation's principal tools for increasing homeownership for moderate-income and first-time homebuyers. FHA insurance helps make homeownership affordable for families who do not qualify for conventional mortgages.

FHA offers a range of different insurance products. In FY 2002, an estimated 1.1 million families will finance their homes with FHA's Single Family Insurance. Other FHA homeownership products include insurance for rehabilitation loans, condominiums, energy-efficiency loans, and reverse mortgages for elderly homeowners. In addition, FHA provides mortgage insurance for multi-family developments and healthcare facilities and offers purchase discounts to teachers and police officers who buy HUD-owned foreclosed properties in locally designated revitalization areas.

Many of FHA's single-family programs operate at a surplus, which means that income from premiums is more than enough to cover losses from defaults. The Mutual Mortgage Insurance Fund, for example, is expected to have a net income of $2.4 billion in FY 2002. In a technical budgetary change based on the Federal Credit Reform Act of 1990, the Office of Management and Budget and the Congressional Budget Office have determined that FHA receipts should be classified within the "discretionary" rather than the "mandatory" part of HUD's budget. This has no effect on actual program levels. The tables at the end of this volume show the effects of this change on both the FY 2001 and FY 2002 budgets.

In FY 2002, FHA plans to make a number of programmatic reforms to strengthen its financial position. For example, to address losses in the General Insurance and Special Risk portfolios, FHA will raise premiums and change its underwriting criteria in a number of the programs in these portfolios. This will reduce the amount of credit subsidy required to support these programs from $101 million in FY 2001 to $15 million in FY 2002.

Government National Mortgage Association (Ginnie Mae)

Through its Mortgage-Backed Securities program, Ginnie Mae helps to ensure mortgage funds are available for low- and moderate-income families served by FHA and other government programs. Ginnie Mae guarantees securities backed by pools of mortgages insured by FHA or guaranteed by the Rural Housing Service (RHS) or the Department of Veterans Affairs. Through this guarantee, Ginnie Mae has helped to finance homeownership opportunities for more than 24.5 million families.

In addition to its normal pass-through of pooled mortgages, Ginnie Mae operates a Targeted Lending Initiative in which the guarantee fees it charges lenders are reduced for mortgages in any of the nation's 72 Empowerment Zones, Enterprise Communities and adjacent eligible central city areas. Since its inception in 1996, this incentive has led to over $11 billion to finance more than 121,000 loans in central cities.

Homeownership Programs for Native American Communities

The FY 2002 budget supports three HUD programs that help to promote homeownership among Native American communities:

- *The Indian Housing Block Grant*. This block grant provides tribes or tribally designated housing entities with a flexible source of funding for affordable housing and related activities. As provided in the Native American Housing Assistance and Self Determination Act (NAHASDA), block grant funds may be used for a wide range of homeownership and rental activities. The FY 2002 budget provides $649 million, the same level as enacted in FY 2001.

- The *Title VI Tribal Activities Loan Guarantee* program provides loan guarantees for Indian Housing Block Grant recipients who need additional funds to engage in affordable housing activities but are unable to borrow from other sources without the guarantee of payment by the Federal Government. The FY 2002 budget provides $6 million in funds set aside within the Indian Housing Block Grant Program as a credit subsidy to guarantee $53 million in private sector loans.

- The *Indian Home Loan Guarantee Program* (Section 184) helps Native Americans to access private mortgage financing for the purchase, construction or rehabilitation of single family homes

by providing loan guarantees to lenders. The FY 2002 budget provides continued funding of $6 million in credit subsidy to guarantee a total of $234 million of such loans.

To support its homeownership programs for Native American communities, HUD will again provide $2 million to the Native American Indian Housing Council which delivers technical assistance and training to tribally designated entities, conducts research and provides information on Indian housing and economic development issues.

Other HUD Homeownership Programs

In addition to the programs discussed above, the FY 2002 budget includes funding for the following programs that help families achieve homeownership:

- *Housing Counseling.* This program provides comprehensive housing counseling services, including pre-purchase, default, and renter counseling, to eligible homeowners and tenants. By educating families on the homeownership process and the responsibilities and benefits of homeownership, housing counseling helps to expand families' homeownership opportunities. For FY 2002, HUD plans to continue funding this program at $20 million as a set-aside within HOME.

- The *Self-Help Homeownership Opportunities Program (SHOP).* SHOP provides grants to national and regional nonprofit self-help organizations to subsidize the costs of land acquisition and infrastructure improvements. Homebuyers must contribute a significant amount of sweat equity or volunteer labor to the construction or rehabilitation of the dwellings. For FY 2002, HUD is requesting $22 million for SHOP as a set-aside within the Community Development Block Grant account, an increase of $2 million over FY 2001. The increase reflects the early successes of this program. FY 2002 grants will help to produce more than 1,400 new homes.

- *Oversight of Fannie Mae and Freddie Mac.* To augment the amount of mortgage credit available to support affordable single family and multifamily housing, HUD sets affordable housing goals for two key housing finance institutions over which it has oversight responsibilities: Fannie Mae and Freddie Mac. Known as Government Sponsored Enterprises (GSEs), these institutions play a vital role in financing affordable owner-occupied housing in the U.S. through their participation in the secondary mortgage market. Last year, HUD announced new affordable housing goals for the GSEs that will substantially increase the availability of financing for affordable housing. In FY 2002, HUD will continue to monitor the GSEs' compliance with these goals and work in cooperation with the GSEs to find new ways to expand homeownership for all Americans.

- *Housing Assistance Council.* In FY 2002, HUD plans to continue to fund a $3 million cooperative agreement with the Housing Assistance Council (HAC). HAC is a nonprofit corporation that works to increase the availability of decent and affordable housing for low-income people in rural areas throughout the United States. In FY 2002, HAC will focus on the affordable housing needs of people living in Colonias. These are poor rural communities and neighborhoods along the U.S.-Mexican border that lack basic infrastructure and services, as well as decent, affordable housing.

II. PROVIDING AFFORDABLE RENTAL HOUSING

While seeking to expand homeownership opportunities, HUD recognizes that homeownership may not be practical for all families, especially families at the bottom of the income scale. To help low-income families afford the high costs of rental housing, HUD provides rental subsidies to more than four million households nationwide through a variety of programs, including the tenant-based and project-based Section 8 programs and public housing.

The FY 2002 budget seeks to strengthen HUD's current rental assistance programs rather than proposing any new ones. During FY 2002, HUD will focus in particular on improving housing agencies' utilization of Section 8 vouchers and public housing capital funds.

The following are some of the key features of the FY 2002 budget that help families afford the high costs of rental housing:

- *Section 8 Contract Renewals.* In FY 2002, HUD will renew all expiring Section 8 contracts at a cost of $15.1 billion. The cost of renewing the 2.7 million expiring Section 8 contracts in FY 2002 exceeds FY 2001 renewal costs by $2.2 billion.

- *Section 8 Incremental Vouchers.* To help reduce the large unmet need for affordable rental housing, the FY 2002 budget includes $197 million in funding for approximately 34,000 additional housing vouchers.

- *Public Housing Operating Fund.* To accommodate increased utility costs and other public housing needs, including the need for crime-prevention activities, the FY 2002 budget proposes to increase the public housing operating fund by $150 million to $3.385 billion.

- *Increasing FHA Multifamily Loan Limits.* In recognition of the increased cost of residential construction, HUD has proposed that the limits for FHA multi-family insurance be increased by 25 percent. Increasing the limits will help to spur the availability of private financing for new production and substantial rehabilitation of affordable rental housing in high cost areas.

HUD has three major rental assistance programs that collectively provide rental subsidies to more than four million households nationwide: the *Section 8 voucher program* (also known as the tenant-based Section 8 program), the *project-based Section 8 program*, and *public housing*. The budget funds the two Section 8 programs under a single account, known as the *Housing Certificate Fund*. The public housing program is funded through the *public housing operating fund*, the *public housing capital fund*, and the *HOPE VI program*, which provides funding to support the demolition and revitalization of distressed public housing.

HUD also helps to provide affordable rental housing through the HOME program, the Indian Housing Block Grant, FHA insurance and the Community Development Block Grant (CDBG) program.[2]

TABLE 1: HOUSING CERTIFICATE FUND
(Budget Authority in Millions)

	2001		2002		2002 vs. 2001	
	Units	BA	Units	BA	Units	BA
Section 8 Contract Renewal	2,587,752	$12,943	2,748,512	$15,108	160,760	$2,165
Tenant Protection Assistance	40,300	265	30,300	203	(10,000)	(62)
Incremental Vouchers	79,000	452	34,000	197	(45,000)	(255)
Non-Elderly Disabled	8,000	40	[8,000]	[40]*	[...]	[...]
Contract Administrators	NA	192	NA	196	NA	4
Jobs Plus	NA	7	NA	...	NA	(7)
Working Capital Fund	NA	11	NA	13	NA	2
Total, Housing Certificate Fund	**2,715,052**	**13,910**	**2,812,812**	**15,717**	**97,760**	**1,807**

*PHAs will be encouraged to provide up to $40 million in voucher funds for non-elderly disabled persons.

Housing Certificate Fund: Section 8 Vouchers and Project-Based Section 8

The Housing Certificate Fund supports the Section 8 voucher and project-based Section 8 programs. In the Section 8 voucher program, families live in modestly priced rental housing that they locate in the private market. In the project-based Section 8 program, by contrast, families live in specific developments that have a pre-existing contractual relationship with HUD. In both programs, families are expected to contribute approximately 30 percent of their income for housing costs (rent plus utilities). HUD provides subsidies to cover those rental costs not paid by the tenant.

In FY 2002, HUD will obligate $15.1 billion to renew all expiring Section 8 contracts for 1 year, an increase of $2.2 billion over FY 2001. The increase is explained largely by the fact that Section 8 contracts were previously funded on a long-term multi-year basis. As long-term Section 8 contracts expire, the number of contracts that need to be renewed each year (and the funding required to do so) increases. Fiscal year 2002 funds will be used to renew expiring contracts for 2.7 million units at a weighted average annual cost of $5,497 per unit.

For FY 2002, the Department has requested $197 million for approximately 34,000 additional "incremental" Section 8 vouchers. These vouchers will enable HUD to make progress in reducing the number of very low-income renter households with worst case needs, which stood at 4.9 million in 1999. Rather than targeting the vouchers to any specific purpose, HUD will distribute them through the Fair Share allocation system to public housing agencies (PHAs) that have demonstrated an ability to effectively use their

[2] CDBG is discussed under Section IV: Supporting Community and Economic Development.

existing vouchers, as measured by high voucher utilization rates. This process will maximize the ability of housing agencies to meet locally defined needs.

HUD recognizes that in the past, it has not moved as quickly as it should have in issuing incremental vouchers to PHAs. If Congress funds its request for incremental vouchers, HUD will act expeditiously to distribute the vouchers to PHAs.

To further speed assistance to low-income families, HUD has targeted for improvement in 2002 the utilization of existing Section 8 vouchers by PHAs. The most recent available data indicate that housing agencies are utilizing approximately 92 percent of the vouchers under contract for a year or more. By working to improve PHAs' utilization of vouchers, HUD will be able to serve tens of thousands of additional families within existing funding levels.

In addition to funding contract renewals, the Housing Certificate Fund provides funds for a number of additional activities:

- *Tenant Protection Program.* This program protects families who live in a project-based subsidized development whose owner either chooses to opt-out of the program or is terminated for cause. Such families receive "enhanced" vouchers to help them remain in their developments or tenant-based assistance to move to a new apartment. Housing vouchers are also provided to public housing tenants displaced by the demolition of distressed public housing. In FY 2002, funds are requested for an estimated 30,000 tenant protection vouchers.

- *Contract Administrator Program.* HUD is requesting funds to continue its performance-based Contract Administrator Program, which funds contracts with designated State or local housing agencies, sometimes in partnership with other public or private entities. Acting as HUD's agent, contractors oversee some 20,000 direct contracts between HUD and project owners for project-based Section 8 assistance. In FY 2002, approximately $196 million will be required to continue these contracts, which run for 3 years.

- *Family Unification Program (FUP).* FUP provides Section 8 vouchers to families with children who have been placed, or are at risk of placement, in foster care primarily because the family lacks adequate housing. Since 1992, HUD has awarded over 18,000 FUP vouchers to housing agencies working in partnership with child welfare agencies, helping more than 50,000 families either stay together or bring their children home. In FY 2001, approximately $10 million will be provided for Family Unification. To the extent appropriations are available, the Administration intends to continue funding at this level.

Finally, HUD will shortly be submitting legislation to continue authority to "mark down" excessive rents for certain Section 8 project-based developments to the rents charged in the surrounding market. Authority for the Mark-to-Market program expires at the end of FY 2001.

TABLE 2: PUBLIC HOUSING
(Dollars in Millions)

	2001	2002	Difference
Public Housing Operating Fund	3,235	3,385	150
Public Housing Capital Fund	2,993	2,293	(700)
Revitalization of Severely Distressed Public Housing (HOPE VI)	574	574	...
Public Housing Drug Elimination Grants	309	...	(309)

Public Housing Operating Fund

While no longer supporting the development of new public housing on a major scale, HUD remains committed to sustaining and improving the Nation's public housing by funding public housing operating and capital expenses. Through the HOPE VI program, HUD also funds the demolition of obsolete public housing stock and its replacement with vouchers or new public housing that blends into the community.

Many PHAs are facing a shortage of funds in FY 2001 to meet utility rate increases. To address this problem, the Department has moved quickly to provide $105 million of FY 2001 funds to affected agencies. Through a formula distribution, $55 million of these funds will be made available to PHAs nationwide and $50 million will be used to compensate specific PHAs with extraordinary utility cost increases. In light of increased utility costs, the FY 2002 Budget provides $3.385 billion for the Operating Fund, an increase of $150 million over the FY 2001 enacted levels.

Public Housing Capital Fund

This fund provides formula grants to PHAs to meet the accrual of new modernization requirements and to reduce the backlog of rehabilitation and modernization requirements. The rehabilitation of existing public housing developments is important to help ensure that they do not become so obsolete that they must be demolished.

The FY 2002 budget provides $2.293 billion for the public housing capital fund, a decrease of $700 million relative to FY 2001.[3] This amount will be sufficient to meet all new modernization requirements. Because PHAs have a large amount of unspent capital funds from prior years, however, the budget does not provide any new funds to address the backlog of modernization and rehabilitation needs.

[3] The request represents only a modest decrease, however, from the $2.5 billion appropriated in FY 1998 and the $2.56 billion requested by HUD in fiscal years 1999 and 2000.

The purpose of the reduction in capital funds is to draw down capital funds that have been appropriated but not expended by PHAs. Recognizing that the funds are primarily for capital improvement projects, HUD expects PHAs to obligate these funds within 18 months and expend them in 36 months. Although not all PHAs are falling behind in scheduled modernization, the buildup of unobligated and unexpended funds by some PHAs indicates that modernization funds may not be reaching the PHAs with the greatest needs or capacity. For example, as of March 1, 2001, $700 million in FY 1998 funds remained unspent by PHAs. HUD plans to review the Capital Fund program and put procedures in place to ensure a more timely and effective reduction of the nearly $20 billion backlog of modernization and rehabilitation needs.

Revitalization of Severely Distressed Public Housing (HOPE VI)

The HOPE VI program provides funds for the demolition and revitalization of severely distressed public housing. The budget requests $574 million for HOPE VI grants in FY 2002, the same as the FY 2001 enacted level.

HOPE VI was launched as part of an effort to demolish 100,000 of the most distressed public housing units. As of the end of FY 2000, HUD had approved applications to demolish nearly 110,000 units and PHAs had actually demolished approximately 60,000. Almost 35,000 of the completed demolitions were carried out in connection with HOPE VI revitalization grants. Some portion of the remainder were financed with HOPE VI demolition-only grants.

The HOPE VI program will expire in FY 2002 and must be reauthorized to continue. The Department is evaluating the HOPE VI program and will submit authorizing language during the coming year to extend and amend the program to target funds to the highest priority needs.

Public Housing Drug Elimination Grant Program (PHDEP)

For FY 2002, HUD has proposed the termination of *PHDEP,* which was funded at $309 million in FY 2001. There are three main reasons for this termination. First, the program is duplicative of the Operating and Capital Funds in that all expenditures that are eligible under PHDEP are also eligible expenditures of one or both of these funds. Second, many other Cabinet Departments have anti-drug programs that can be brought to bear on the problems of drug use and violent crime in public housing. Governmentwide, over $18 billion in Federal funding is projected for FY 2002 on anti-drug programs and illegal drug enforcement efforts. Finally, the Inspector General has severely criticized PHDEP for being the source of funds for such inappropriate activities as retreats, bank loans and Christmas parties. Indeed, the Department itself diverted PHDEP technical assistance funds to implement a gun buy-back program, which the Comptroller General ruled was not a legal use of funds.

Although HUD is not requesting funds for PHDEP, it will fund Operation Safe Home and the Witness Relocation Program. The Inspector General operates a special taskforce, Operation Safe Home, which combines the expertise of Federal and local crime fighting forces to combat violent crime such as illegal drug trafficking and gang-related activity in public and assisted housing developments. In FY 2002, $10 million will be set aside within the Public Housing Operating Fund and transferred to the Inspector General for additional law enforcement staff.

The Witness Relocation Program assists families that have cooperated in efforts to combat crime in communities. It is a crucial part of Operation Safe Home. Since the initiation of Operation Safe Home, the Inspector General has relocated 650 witnesses whose testimony was essential to the prosecution of perpetrators of violent crimes.

Other HUD Programs That Help Families Afford Rental Housing

In addition to public housing, Section 8 vouchers and the project-based Section 8 program, HUD has a number of other programs that contribute significantly to the availability of affordable rental housing. These include the HOME program and the Indian Housing Block Grant, discussed in Section I above. Both programs can be used at the discretion of local officials for either homeownership or rental housing activities. To date, HOME grantees have committed funds to support the construction, rehabilitation or acquisition of nearly 250,000 rental units and provided tenant-based rental assistance to more than 60,000 households.

Another flexible block grant, the Community Development Block Grant (CDBG), can also be used to support certain affordable rental housing activities. CDBG is discussed below under Section IV. Finally, as noted above, FHA helps to spur investment in affordable rental housing through multifamily insurance. To increase the effectiveness of this program, HUD will seek authority to raise FHA multifamily loan limits by 25 percent in FY 2002.

III. BUILDING ASSETS AND SKILLS AMONG LOW-INCOME FAMILIES

Central to HUD's mission of promoting stronger communities are activities to help low-income working families acquire skills that will increase their earnings and to help families on welfare make progress towards self-sufficiency. HUD also seeks to help low-income families accumulate assets so that they can achieve homeownership, pursue educational opportunities, start a new business, and attain other important goals.

HUD's basic programs contribute to this objective by providing low-income families with the housing stability they may need to focus on obtaining work or increasing their earnings. HUD's homeownership assistance programs also help families to accumulate assets. In addition, HUD has a number of programs that focus directly on building assets and skills among low-income families.

Key initiatives in this area for FY 2002 include:

- *Community Technology Centers*. For FY 2002, HUD will provide $80 million in competitive grants to help communities create or expand computer technology centers in low-income areas. These centers will provide an opportunity for low-income children and parents to learn vital computer skills.

- *Family Self-Sufficiency (FSS) Program*. The FSS program helps families with Section 8 vouchers and public housing residents to build assets and access employment training and other supportive services. In FY 2002, HUD will work to expand the number of families participating in FSS.

- *Individual Development Accounts*. To further promote asset-development among low-income families, the Administration will propose a tax credit for financial institutions that match private Individual Development Accounts. These are savings accounts set up by low-income families to help them save for a first home, to pay for education, or to start a business.

These initiatives are discussed in greater detail below in the context of the self-sufficiency and asset-building programs supported by HUD's FY 2002 budget. These programs include Neighborhood Networks, the Family Self-Sufficiency Program, the Resident Opportunity and Self-Sufficiency Program, Youthbuild, and the Welfare-to-Work Voucher Program.

Community Technology Centers

Building on the lessons learned through the Neighborhood Networks program (described below), HUD will provide $80 million in competitive grants to help communities create or expand computer technology centers in low-income areas. The centers will provide free Internet access and help families acquire computer skills, access educational information, and search for work.

Neighborhood Networks

Through the Neighborhood Networks program, HUD has helped to create more than 700 computer technology centers in multi-family assisted housing developments and HOPE VI sites throughout the country. Hundreds of additional computer centers operate in public housing and Native American housing. HUD supports the development of these centers by providing guidebooks and other technical assistance, sharing information on best practices, and allowing the centers to occupy space in affordable housing developments.

Family Self-Sufficiency (FSS) Program

Currently serving some 55,000 families in the tenant-based Section 8 and public housing programs, FSS promotes the development of local strategies to help families obtain or increase employment so that they can build assets and achieve economic independence and self-sufficiency. FSS helps to link participating families with local opportunities for educational services, job training, counseling, and other services while they are receiving housing assistance. As participating families increase their work effort, the amount of increased rent attributable to increased income from employment is deposited in an escrow account. Families that comply with program rules and become independent of welfare assistance by the end of the 5-year program term can use the funds in the escrow account to purchase a home, pay for higher education, start a business, or other agreed-upon goals.

In FY 2002, HUD will work to increase participation in FSS by providing funding for FSS service coordinators at local housing agencies, helping to spread awareness of successful practices, and promoting partnerships between local housing and welfare agencies. The FY 2002 budget provides $46.4 million for FSS coordinators within the Housing Certificate Fund.

Individual Development Accounts

For FY 2002, the Administration plans to expand on FSS and other existing asset-building programs by proposing a tax credit for financial institutions that match private Individual Development Accounts (IDAs). IDAs are savings accounts set up by low-income families to help them save for a first home, pay for education, or start a business. As an incentive to encourage savings, families' contributions to IDA accounts are matched (sometimes several times over) by third-parties. IDA programs also provide families with training in financial literacy.

Resident Opportunity and Self-Sufficiency Program (ROSS)

ROSS provides a range of supportive services to families in public housing through competitive grants to PHAs, resident groups, Indian tribes and other qualified organizations. The services funded through ROSS are designed to help families make progress towards self-sufficiency; enable the elderly and persons with disabilities to live independently through service coordinators and other activities; and support resident management, business development, capacity building and conflict resolution activities.

Funding for ROSS in FY 2002 is continued at $55 million, the same level enacted in FY 2001. Consistent with prior practice, it is funded as a set-aside in the CDBG program.

Youthbuild

To help young high school dropouts (aged 16-24) obtain well-paying jobs, Youthbuild provides them with education and job training services, counseling and other support activities and onsite paid training in housing rehabilitation or construction work. The average wage earned by Youthbuild trainees is $7.50 per hour and an impressive 84 percent of the graduates obtain full-time employment or re-enter school on a full-time basis. A wide range of groups are eligible to compete for Youthbuild funds, including nonprofit organizations, state and local housing agencies and state and local governments.

In FY 2002, HUD will continue Youthbuild at last year's level of $60 million and will continue the program as a set-aside within the CDBG program. HUD estimates that this funding will provide training to an estimated 3,774 youths.

Welfare-to-Work Voucher Program

The FY 1999 VA-HUD Appropriations Act included funds for up to 50,000 Section 8 vouchers to help families make the transition from welfare to work. Housing vouchers can help families make progress towards self-sufficiency by providing them with the residential stability they may need to focus on obtaining or retaining work as well as the opportunity to move closer to a new job. Although implementation of the Welfare-to-Work Voucher program has been delayed due to the challenges of designing a new program and of coordinating the efforts of local housing and welfare agencies, substantial progress has been made in recent months.

The costs of renewing the existing Welfare-to-Work vouchers are included as part of the overall Section 8 contract renewals in the Housing Certificate Fund. As requested by Congress, HUD's Office of Policy Development and Research is in the process of evaluating this program.

IV. SUPPORTING COMMUNITY AND ECONOMIC DEVELOPMENT

In FY 2002, HUD will continue to support its core community and economic development programs. These programs play an essential role in helping communities address locally determined development priorities and maintain long-term prosperity. Highlights of the work HUD proposes in this area for FY 2002 include:

- *Community Development Block Grant (CDBG) Program.* For FY 2002, HUD will continue its strong support for CDBG by funding CDBG formula grants at the FY 2001 level of $4.399 billion.

- *Faith-Based and Community Organizations.* As part of an Administration-wide effort to better support the work of faith-based and community organizations, HUD will examine its programs and policies in FY 2002 to identify ways to strengthen the capacity of these nonprofit groups and to reduce any barriers that may impede their access to HUD funding.

- *Lead-Based Paint Hazard Reduction.* In FY 2002, HUD will increase funding for lead-based paint hazard reduction by $10 million to a total of $110 million.

- *Growth Management.* During FY 2002, HUD will facilitate a national conversation on growth management issues and help to develop tools that local communities can use to better manage their growth.

HUD has a range of programs that support community and economic development activities, including: the Community Development Block Grant (CDBG) program, the Section 108 Loan Guarantee program, the Urban Empowerment Zone Program, the Brownfields Economic Development Initiative, the Lead-Based Paint Hazard Reduction and the Healthy Homes Program, University Programs, the Indian Community Block Grant, and the Native eDGE program.

Details of these programs are provided following a description of two Secretarial priorities for FY 2002: HUD's plans in FY 2002 to build capacity among faith-based and community organizations and to facilitate a national conversation on Growth Management issues.

Faith-Based and Community Organizations

On January 29, 2001, the President issued executive orders establishing a White House Office of Faith-Based and Community Initiatives and instructing five agencies, including HUD, to set up Centers for Faith-Based and Community Initiatives. As stated in the executive orders, these Centers are intended to "coordinate a national effort to expand opportunities for faith-based and other community organizations and to strengthen their capacity to better meet the social needs in America's communities."

HUD has long recognized that much of the hard work of housing and neighborhood revitalization, as well as the provision of homelessness services, is carried out by nonprofit faith-based and community organizations and that HUD's mission will be advanced by working to strengthen their capacity and access to HUD funding. For this reason, HUD has already established a center to coordinate work with faith-based and community organizations. During FY 2002, this center will be expanded to enhance its effectiveness. HUD will also examine its programs and policies to identify ways to strengthen the capacity of these organizations and to reduce any barriers they may have to accessing HUD funding.

Growth Management

Many communities are experiencing rapid growth that requires them to address such difficult quality of life issues as: traffic congestion, the availability of affordable housing, preservation of natural resources and the adequacy and timely provision of the public facilities and services needed to accommodate growth. While these are local issues that require local solutions, HUD has an important role to play at the national level. During FY 2002, HUD will facilitate a national conversation on growth management issues and help to develop tools that local communities can use to better manage their growth.

To help promote sensible and responsible growth, HUD will work with local communities to promote reinvestment in the urban core and ensure the continued availability of affordable housing. Reinvesting in urban areas can help both to alleviate the growth pressures on newer communities and to ensure that cities benefit from overall economic growth. Since local decisions on growth management issues can affect the cost of housing, HUD will continue to work to expand access to affordable housing nationwide.

These activities are well within the core mission of HUD. In the Housing and Urban Development Act of 1965, which created HUD, Congress authorized the Department to encourage comprehensive planning and regional cooperation among states and local governments, help local communities develop solutions to metropolitan and community development problems, and recommend policies for the "orderly growth and development" of our urban areas.

TABLE 3: COMMUNITY AND ECONOMIC DEVELOPMENT

	2001	2002	Difference
Community Development Block Grants (Net Formula Funding)	$4,399	$4,399	...
Special Purpose and Targeted Grants	412	0	($412)
Section 108 Loan Guarantees	30	15	(15)
Urban Empowerment Zones	185	150	(35)
Brownfields Economic Development Initiative	25	25	...
Lead-Based Paint Hazard Control and Healthy Homes Initiative	100	110	10
National Community Development Initiative	28	29	1
Indian Community Block Grants	71	69	(2)
Section 107 plus other University Programs	45	44	(1)

Community Development Block Grant (CDBG)

CDBG provides local communities with a flexible source of funds to help them attract private investment, maintain a high-quality housing stock, rebuild infrastructure and community facilities, provide critical community services, and create new high paying jobs. CDBG funds are provided directly to approximately 1,000 large cities and counties (known as "entitlement communities") and to States for distribution to smaller communities. For FY 2002, HUD has requested a total of $4.8 billion in CDBG funds. This is composed of $4.4 billion for CDBG formula grants and $403 million in set-asides for specific programs. The amount requested for the CDBG formula is the same as the level enacted in FY 2001. This represents a record level of formula funding and a $160 million increase over the amounts appropriated in fiscal years 1999 and 2000.

During FY 2002, the Department will continue to work to increase communities' timely expenditure of previously allocated CDBG funds. Although HUD's efforts over the last few years have led to a 34 percent reduction in the number of communities that are failing to meet their timeliness obligations, there are still a number of communities that are not spending their CDBG funds in a timely manner.

The Department intends to work closely with communities to ensure that comprehensive plans are implemented fully and funds are used expeditiously under the consolidated plan review process.

Although funding for the CDBG formula is maintained at FY 2001 levels, HUD has proposed a substantial reduction in funding of set-asides within CDBG. The enacted level of set-asides within CDBG in FY 2001 was $713 million. The requested level for FY 2002, by contrast, is $403 million, a reduction of $310 million. The principal source of the reduction is the proposed elimination of funding for the *Economic Development Initiative* and the *Neighborhood Initiative*

Demonstration. These programs, which together totaled $412 million, were earmarked for "special purpose" grants in the appropriations act.[4]

The growth in special purpose grants has been dramatic over the past few years. In FY 2001, the appropriations act contained over 800 individual projects. Administering these individual grants is costly, time-consuming, and distracts HUD staff from its core programs. As most of the special purpose grants would be eligible expenses under the CDBG formula, these types of projects can be funded if deemed to be priorities by local recipients of CDBG funding.

Section 108 Loan Guarantee Program

The *Section 108 Loan Guarantee* program provides a means by which local communities can leverage their CDBG grants to obtain financing for large community revitalization projects. Under this program, the government acts as the guarantor of loans secured by current and future CDBG funds. Section 108 financing is at work in hundreds of communities across America. Over 1,200 projects have been funded since the program's inception in 1978.

In every year since FY 1997, the total loan volume authorized for the Section 108 program has been $1.2 billion. Only about one-third or less of this loan level has been used each year, however, with an average annual utilization of $375 million. To reduce the level of the government's outstanding commitment to levels that reflect actual usage, while at the same time ensuring that any upward surge in loan volume is fully accommodated, the FY 2002 budget is requesting a loan volume of $609 million. HUD will reconsider the loan volume cap for FY 2003 based on this year's demand for the program.

Empowerment Zones and Enterprise Communities (EZ/EC) Initiative

The EZ/EC initiative is an interagency effort to promote economic development and community revitalization in distressed areas by targeting tax relief and federal funds to designated Empowerment Zones (EZs) and Enterprise Communities (ECs). EZs and ECs are eligible for an array of different tax credits and other incentives designed to spur investment and economic growth. EZs and ECs also receive some amount of federal funding for revitalization activities. Grants are used for a wide variety of activities that assist residents and businesses, including workforce preparation and job creation efforts linked to welfare reform; neighborhood development; support for financing capital projects; financing of projects in conjunction with Section 108 loans or other economic development projects. Funds are also used for rental assistance and other housing assistance, policing and healthcare.

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[4] Two new set-asides within CDBG, described elsewhere in this document, are the Community Technology Centers Initiative ($80 million) and the Improving Access Initiative ($20 million).

To date, there have been two rounds of EZ/EC designations, with a third round authorized but not yet made. In the first round, nine communities (six urban and three rural) were designated as Empowerment Zones and 95 communities were named as Enterprise Communities. Twenty new Empowerment Zones – 15 urban and 5 rural – were designated in the Round II competition, along with 20 new Enterprise Communities, all rural.

In December 2000, Congress approved legislation to designate nine new EZs, seven in urban areas and two in rural areas. HUD will designate the seven new urban EZs in 2001, while the Department of Agriculture will designate the rural EZs. The legislation also authorized the designation of 40 Renewal Communities, 28 in urban areas and 12 in rural areas, to be designated by HUD by the end of 2001. Businesses in Renewal Communities will benefit from local regulatory streamlining and a variety of federal tax incentives to stimulate economic growth.

HUD is responsible for providing each of the 15 Round II urban Empowerment Zones with $10 million in annual funding. As funding to date has lagged behind this committed level, HUD is seeking full funding of $150 million for FY 2002.

Brownfields Economic Development Initiative

For FY 2002, HUD proposes to fund the Brownfields Economic Development Initiative at $25 million, the same level as enacted in FY 2001. Brownfields are vacant or underutilized properties whose redevelopment is hampered by the real or perceived threat of environmental contamination. A recent survey of over 200 cities by the U.S. Conference of Mayors indicated that more than $2.7 billion in additional tax revenues and 675,000 new jobs could be created if brownfields sites were returned to productive uses.

The Brownfields Economic Development Initiative makes competitive economic development grants available to local governments in conjunction with Section 108 loan guarantees. The grants act to enhance the security of the Section 108 loan, facilitating the reclamation of brownfields. HUD works closely with the Environmental Protection Agency pursuant to an agreement to work together to implement strategies to return brownfields to productive uses.

Other HUD Programs that Support Community and Economic Development

In addition to the programs discussed above, several additional HUD programs help to support local community and economic development. These include:

- *Lead-Based Paint Hazard Reduction and Healthy Homes Programs.* To help reduce the hazards of lead-based paint, the FY 2002 budget requests a 10 percent increase in funding for these programs for a total of $110 million. Pursuant to Executive Order 13045, a multi-agency task force that included HUD, EPA, Justice and the Centers for Disease Control and Prevention developed a comprehensive 10-year plan to eradicate the risk associated with lead

paint poisoning from American homes. HUD's grants are key to the achievement of this objective. The increased funding in FY 2002 will be distributed through a competitive process to entities that match every Federal dollar with significant additional dollars. All funds, whether private or Federal, must be used for hazard reduction or public education on lead poisoning prevention.

Included in this request is a set-aside of $10 million to continue the *Healthy Homes Initiative*, which helps to develop, demonstrate and promote cost-effective, preventative measures to correct multiple safety and health hazards in the home that can cause serious disease and injuries to children.

- *National Community Development Initiative (NCDI).* NCDI is a partnership of public and private funders and intermediaries that works to expand the capacity of community development corporations and other community-based and nonprofit organizations to carry out community and economic development. HUD provides NCDI funding to national intermediaries, including Habitat for Humanity, the Enterprise Foundation, and Local Initiatives Support Corporation, which then provides capacity building services to the targeted organizations. The FY 2002 budget requests $29 million for NCDI, an increase of $1 million over FY 2001 levels. The additional $1 million will go to Habitat for Humanity to increase funding for their capacity building efforts to $4.4 million.

- *University Programs.* Colleges and universities can make an important contribution to the revitalization of America's cities and neighborhoods by bringing their intellectual and financial resources to bear on locally identified problems. HUD has several programs that encourage partnerships between colleges and universities and local governments and community-based organizations. These programs include: the Community Outreach Partnership Centers Program, the Historically Black Colleges and Universities Program, the Hispanic-Serving Institutions Assisting Communities Program, the Alaska Native/Native Hawaiian Institutions Assisting Communities Program and Assistance to Tribal Colleges and Universities. In addition, the Community Development Work Study program provides stipends and tuition support for economically disadvantaged and minority graduate students who plan to pursue careers in community and economic development. The FY 2002 budget funds all of the university programs at FY 2001 levels.

- *Block Grants for Indian and Insular Area Communities.* Two set-asides within CDBG provide flexible funding for community and economic development activities in Native American and Insular Area communities. The FY 2002 budget provides $69 million for Indian community development block grants and $7 million for community development block grants to Insular Areas (American Samoa, Guam, the Northern Mariana Islands, and the Virgin Islands). Funding for Insular Areas is included within the set-aside for Section 107 grants.

- *Native eDGE.* A set-aside of $1.25 million in the Indian Community Development Block Grant will fund the Native eDGE program, an interagency initiative designed to facilitate sustainable economic development within American Indian and Alaska Native communities. eDGE includes a telephone call center, a publications clearinghouse, a web site, and a technical assistance information center. The web site links seventeen federal agencies, educational institutions, and organizations through a single portal so that tribes, Native Americans, lending institutions, and private businesses can collaborate to promote economic growth.

V. MEETING THE NEEDS OF SPECIAL POPULATIONS

HUD programs provide housing and other essential support to a wide range of populations with special needs, including the elderly, persons with disabilities, homeless persons and persons with HIV/AIDS.

In FY 2002, HUD will continue its strong level of support by funding the programs targeted for these populations at or above FY 2001 levels. Notable increases include $20 million in additional funding for the Housing Opportunities for Persons with AIDS (HOPWA) program and $20 million for the Improving Access Initiative, which will be used to increase access by disabled persons to the facilities of nonprofit organizations.

TABLE 4: HOUSING FOR SPECIAL POPULATIONS
(Budget Authority in Millions)

	2001	2002	Difference
ELDERLY:			
Supportive Housing for the Elderly (Section 202)	$676	$679	$3
Project Rental Assistance Contract (PRAC) Renewal	0	3	3
Conversion to Assisted Living/CAP Grant (Rehab)	50	50	...
Service Coordinators	50	50	...
Working Capital Fund	1	1	...
Total Elderly	$777	$783	$6
PERSONS WITH DISABILITIES			
Persons with Disabilities (Section 811)	$217	$217	...
Project Rental Assistance Contract (PRAC) Renewal	0	1	$1
Improving Access Initiative*	...	20	20
Total Persons with Disabilities	$217	$238	$21
HOMELESS PERSONS			
Homeless Assistance Grants	$1,023	$1,023	...
Working Capital Fund	[15]	[9]	[($6)]
Technical Assistance and Management Infor. Systems	...	[5]	[5]
Interagency Council on the Homeless	[1]	[1]	...
Shelter Plus Care Renewals	100	100	...
Total Homeless Persons	$1,123	$1,123	...
PERSONS WITH HIV/AIDS			
Housing Opportunities for Persons with AIDS	$257	$277	$20
Technical Assistance	[3]	[2]	[(1)]
Total Persons with HIV/AIDS	$257	$277	$20
* Funded as a set-aside within CDBG.			

Elderly Housing and Services

The FY 2002, HUD plans to continue its strong support for the elderly by providing $783 million for elderly housing programs, an increase of $6 million over FY 2001 levels.

The principal HUD program targeted specifically to the elderly is the Supportive Housing for the Elderly (Section 202) program. This program provides capital advances to finance the construction and rehabilitation of structures that will serve as supportive housing for very low-income elderly persons and provides rent subsidies (known as Project Rental Assistance Contracts (PRAC)) for the projects to help make them affordable. For FY 2002, HUD will provide $679 million for Section 202 grants, an increase of $3 million over FY 2001. The FY 2002 budget also includes $3 million for PRAC renewals.

In addition to providing funds for new Section 202 developments, the FY 2002 budget includes $50 million to cover the costs of converting existing Section 202 developments to assisted living facilities and another $50 million for service coordinators that help the elderly maintain their independence. Both of these activities are funded at FY 2001 levels.

Other programs serving the elderly include the public housing and tenant-based and project-based Section 8 programs, which together provide affordable rental housing to more than 1.3 million elderly households. These programs are discussed in Section II, above.

Persons With Disabilities

The Supportive Housing for the Disabled (Section 811) program provides capital advances to construct or rehabilitate rental housing with supportive services for very low-income persons with disabilities. (As noted below, a portion of Section 811 funds is used for tenant-based rental assistance.) For FY 2002, HUD will provide $217 million for new Section 811 grants, the same level as in FY 2001. The budget will also provide $1 million for PRAC renewals to help keep existing Section 811 developments affordable.

In recognition of the importance of providing non-elderly persons with disabilities with mainstream housing opportunities, the Department plans to continue to set-aside a portion of Section 811 funds to provide these households with tenant-based vouchers that they can use to rent private market apartments of their choice. Public housing agencies will also continue to have the authority to provide vouchers to non-elderly persons with disabilities pursuant to designated public housing plans.

In addition to the Section 811 program, disabled persons are served by the public housing and project-based and tenant-based Section 8 programs. Together, these programs serve some 500,000 households with one or more disabled persons.

Improving Access Initiative

As part of a Governmentwide effort to improve the access of disabled persons to community services, HUD's FY 2002 budget includes $20 million as a set-aside within the CDBG account for the Improving Access Initiative. This initiative will provide competitive grants to help organizations that are exempt from the Americans with Disabilities Act and have limited resources to make their facilities accessible to the disabled. Among other eligible organizations are civic organizations and religiously affiliated service providers.

Homeless Persons

The FY 2002 budget continues to provide strong support for homeless persons by funding HUD's homeless programs at FY 2001 levels. In FY 2002, a total of $1.12 billion is provided for homeless assistance grants and shelter plus care renewals. This will fund four programs: the Supportive Housing Program, the Shelter Plus Care Program, the Section 8 Moderate Rehabilitation for Single Room Occupancy (SRO) Dwellings for Homeless Individuals Program, and the Emergency Shelter Grant Program. The first three programs are administered competitively through the Continuum of Care process. Emergency Shelter Grants, by contrast, are awarded directly by formula.

The Department will focus on providing permanent housing solutions to those without homes and work closely with the Department of Health and Human Services and other agencies to identify and remedy the barriers to homeless persons' access to mainstream supportive services programs. As specified by Congress, at least 30 percent of Continuum of Care funding will be used to provide homeless persons with permanent housing.

The Continuum of Care process allows local communities to determine their own priorities for the use of HUD homeless programs funding. Under this process, communities submit Continuum of Care plans to HUD which describe local priorities and rank specific projects according to locally identified needs. HUD provides funding to communities that provide for maximum participation by local homeless providers and representatives of homeless clients, that clearly identify gaps in housing and service needs, and that coordinate homeless assistance with mainstream health, social services and employment programs. The following three programs are funded through the Continuum of Care:

- The Supportive Housing Program provides funds to develop supportive housing and services that will allow homeless persons to live as independently as possible. Funds are used for transitional housing (up to 24 months) and permanent housing for persons with disabilities.

- The Shelter Plus Care Program provides rental assistance for hard-to-serve homeless persons with disabilities in connection with supportive services funded from sources outside the program. This is a form of permanent housing. In FY 2001, a special account was created to fund

renewals of expiring Shelter Plus Care contracts. In FY 2002, HUD will continue to fund these renewals at $100 million.

- The Section 8 Moderate Rehabilitation for Single Room Occupancy (SRO) Dwellings for Homeless Individuals Program provides rental assistance for homeless persons through the moderate rehabilitation of SRO dwellings.

In addition to funding these three homeless programs, HUD will provide approximately $150 million in Emergency Shelter Grants by formula. These grants are used for the rehabilitation or conversion of buildings into homeless shelters, as well certain related social services, operating expenses, homeless prevention activities, and administrative costs.

Finally, the Department will continue to work in FY 2002 to implement the Congressional mandate to develop and implement new systems to track homeless individuals as they enter and exit the network of homeless services programs and to provide unduplicated counts of the number of homeless persons served. HUD believes it essential to get a fix on the reach of HUD's homelessness programs so that the performance of these programs can be measured.

Persons with HIV/AIDS

The Housing Opportunities for Persons with AIDS (HOPWA) program funds housing assistance and related supportive services for low-income persons with HIV/AIDS and their families. Grants are provided by formula allocations to States and metropolitan areas with the largest number of cases and highest incidence of AIDS. In addition, a small portion of funds is awarded competitively among projects proposed by State and local governments and nonprofit organizations.

In FY 2002, HUD will provide $277 million for the HOPWA program, an increase of $20 million over FY 2001 levels. This will support an increase in the number of jurisdictions eligible for funding based on increases in the number of persons with AIDS as reported to the Centers for Disease Control and Prevention.

VI. ENFORCING THE FAIR HOUSING LAWS

HUD is committed to vigorous enforcement of the fair housing laws to help ensure that all households have equal access to rental housing and homeownership opportunities. For FY 2002, the Department plans to increase the amount of funding available for fair housing enforcement and education activities by 16 percent over current levels. The Department also plans further steps to decrease the incidence of predatory lending.

HUD contributes to fair housing enforcement and education in two ways: by directly enforcing the federal fair housing laws and by funding state and local fair housing efforts through two grant programs:

- The Fair Housing Assistance Program (FHAP) strengthens nationwide enforcement efforts by providing grants to State and local agencies to enforce laws that are substantially equivalent to the federal Fair Housing Act. For FY 2002, HUD will provide $23 million for FHAP, an increase of $1 million over current levels.

- The Fair Housing Initiatives Program (FHIP) provides funds to public and private fair housing groups, as well as to state and local agencies, for activities that educate the public and housing industry about the fair housing laws, including accessibility requirements; investigate allegations of discrimination; and help to combat predatory lending practices and reduce barriers to minority homeownership.

In FY 2001, FHIP was funded at $24 million, of which $7.5 million was dedicated to the National Survey of Housing Discrimination, a major study of housing discrimination being conducted by the Urban Institute. This left $16.5 million for FHIP grants. As no additional funding for the survey is needed in FY 2002, the FY 2002 level of $23 million provides an effective increase for FHIP grants of $6.5 million.

The additional $6.5 million in FY 2002 FHIP funding will be directed towards increasing the number of organizations that receive funding for activities to enforce the rights granted under the Fair Housing Act and substantially equivalent State and local laws through education, outreach, prevention and other enforcement activities. This funding increase will significantly expand the geographic distribution of FHIP awards to communities that are currently underserved or not served at all by fair housing organizations. In FY 2000, HUD was only able to fund 42 percent of eligible applicants. With the increase in funds, HUD will be able to fund 72 percent of the eligible applicants.

During FY 2002, HUD also plans to continue its efforts to combat predatory lending. The Department will work closely with interested parties, including consumer groups, Federal, state and local regulators, and the industry to put an end to predatory lending practices, increase financial literacy and expand access to homeownership and private mortgage credit. As part of this overall effort, HUD will consider ways to better enforce existing laws, which may include strengthening existing regulations, as well as assess the need for legislative action to better protect consumers and stop unfair lending practices.

VII. ENSURING RESPONSIBLE HUD STAFFING AND PROGRAM SUPPORT

Despite the progress of the last 12 years, much more needs to be done to resolve HUD's serious management challenges. Although HUD is no longer listed by the General Accounting Office as a "high-risk" agency, many of its major programs continue to bear this label. Addressing these challenges is a top Secretarial priority for FY 2002.

Staffing

During FY 2002, HUD will review staffing levels against program needs to rationalize the distribution of staff resources. HUD's efforts will be aided by the new *Resource Estimation and Allocation System* which will help the Department to assess where staffing should be increased or decreased to effectively administer its programs. HUD is also working to develop a long-term staffing strategy to meet the rapid increase in retirements expected over the next several years. Currently, the average HUD employee is 50 years old with 17 years of Federal service. To ensure HUD's continued ability to deliver its programs in an effective and timely manner, HUD must develop a strategy for replacing these workers as they retire.

Oversight of Local Housing Providers

HUD will continue its efforts to improve oversight of the local housing agencies and property owners that administer its housing programs. Although the Department recognizes that the physical inspections protocol used to assess public housing and multifamily assisted housing needs further refinement to ensure consistent and fair results, it plans to continue to assess the physical condition of HUD-assisted housing to ensure that it is decent and safe.

Income and Rent Determinations

The Department will also take steps to improve income and rent determinations to reduce subsidy overpayments. HUD overpays hundreds of millions of dollars in low-income rent subsidies due to the incomplete reporting of tenant income, the improper calculation of tenant rent contributions, and the failure to fully collect all outstanding rent. During FY 2002, HUD will implement a number of measures to resolve this problem, including the development of tools to assist housing agencies and assisted housing owners in the determination of income and calculation of rent and the introduction of a quality control program to monitor the performance of these intermediaries. HUD also plans to review the current laws and regulations regarding income and rent determinations to ascertain whether their simplification would facilitate program compliance.

Utilization of HUD Funds

The Department is greatly concerned that some recipients of HUD funding are either failing to utilize all of the funds provided by HUD or failing to obligate and spend the funds in a timely manner. These practices significantly diminish the effectiveness of HUD's programs. HUD will be reviewing the following programs to determine how to increase the rates of expenditure of funds: Section 8 vouchers and project-based renewals, the Section 202 program, CDBG, and the Public Housing Capital Fund.

FHA Fraud Reduction and Improved Program Controls

Inadequate information systems have weakened FHA's ability to monitor lenders that use its guarantees and contributed to HUD's failure to obtain a clean opinion from its auditors in 1999. A fraudulent scheme known as "property-flipping" recently highlighted internal weaknesses in FHA's single-family systems and controls. To combat this scheme last year, FHA implemented emergency foreclosure moratoria to protect borrowers in areas where property flipping was prevalent. During FY 2002, FHA will strengthen the integrity of its internal systems and controls to eliminate the need for foreclosure moratoria and other emergency responses. Actions will include improving the loan origination process and providing better monitoring of lenders and appraisers.

Evaluation and Research

The Department is committed to the continued review and evaluation of its programs to determine what is working well and what needs to be improved. HUD is also committed to continuing to conduct surveys and research to collect the factual information on housing markets and conditions necessary to inform the policy decisions of HUD, Congress and state and local governments. To this end, the FY 2002 budget provides $43 million in funding for basic research and technology, the same amount as in FY 2001.

Congressional Commissions

Finally, HUD recognizes the importance of the work being conducted by two Congressional Commissions: the *Millennial Housing Commission* and the *Commission on Affordable Housing and Health Care Facility Needs in the 21st Century*. HUD is eager to assist Congress in assembling factual information on the extent of the nation's housing needs, analyzing HUD's programs, and developing proposals for improving the current housing programs.

Appendix A
Summary of HUD's 2002 Budget
Increases and Decreases

		$ In Millions
FY 2001		28,480
Technical Changes:		
• Change in FHA receipts to the discretionary budget	-156	
• Change in other offsetting receipts	-152	
• Eliminate FHA emergency in 2002	-40	
• Restore one-time rescission of 2001 Section 8 Funds	+1,829	
Subtotal.....		+1,481
Program Decreases:		
• Reduce Public Housing Capital Fund to draw down unspent funds		-700
• Public Housing Drug Elimination Grants are folded into normal operating subsidies	-309	
• Reduce PHAs Section 8 Reserves to 1-month based on recent program changes, annual funding	[-640]	
• Eliminate CDBG Special Purpose Projects	-410	
• EZ funding is placed on previously established 10-year plan	-35	
• Reduce Low Priority Technical Assistance		[-30]
• Eliminate Rural Economic Development Programs which are eligible activities in CDBG and USDA programs	-25	
• Completed PATH Demonstration Program		-10
• Reduce Section 108 Loans to reflect actual usage		-15
Decrease Subtotal.....		-1,504
Program Increases:		
• Provide 34,000 Incremental Vouchers to reduce waiting lists backlog		[+197]
• Provide homeownership downpayment assistance to 130,000 low-income, first time homebuyers	[+200]	
• Increase Public Housing Operating Subsidies for anti-drug and utility cost increases		+150
• Additional Community Technology Centers	+80	
• Increase HOPWA based on recent CDC statistics		+20
• Increase lead-based removal grants to leverage private sector funding	+10	
• Improve access for disabled persons to ADA exempt religious and community organizations		+20
• Housing Certificate Fund Increases	+1,807	
• Elderly/Disabled Program Increases	+7	
• Pay adjustments		+38
Increase Subtotal.....		+2,132
Offsetting Receipts:		
• Operate GI/SRI portfolio with reduced credit subsidy	-86	
• Introduce "Hybrid ARM" Mortgage Program		-99
FY 2002 Budget.....		30,404

APPENDIX B

BUDGET AUTHORITY BY PROGRAM
COMPARATIVE SUMMARY, FISCAL YEARS 2000-2002

	2000 ENACTED	2001 ENACTED	2002 REQUEST
DISCRETIONARY PROGRAMS			
COMMUNITY PLANNING AND DEVELOPMENT			
Community Development Block Grants Fund	$4,800	5,113	4,802
Supplemental Appropriation (P.L. 106-246)	28	...	...
Rescission of Economic Development Initiative earmarks	(19)	...	...
Net CDBG Budget Authority	4,809	5,113	4,802
Community Technology Centers	[...]	[...]	[80]
Improving Access Initiative	[...]	[...]	[20]
Formula Grants	[4,236]	[4,399]	[4,399]
CDBG Set-Asides:			
Indian Community Block Grant	[67]	[71]	[69]
Capacity Building (NCDI)	[24]	[28]	[29]
Habitat for Humanity	[[4]]	[[3]]	[[4]]
Section 107 Grants	[42]	[45]	[38]
Management Information Systems	[[5]]	[[5]]	[[4]]
Alaskan Native and Hawaiian Native Institutions	[[2]]	[[3]]	[3]
Tribal Colleges and Universities	[...]	[[3]]	[3]
Housing Assistance Council	[3]	[3]	[3]
National American Indian Housing Council	[2]	[3]	[2]
Special Olympics	[4]	[...]	[...]
2002 Winter Olympics/Utah Housing Finance Agency	[...]	[2]	[...]
Neighborhood Initiative Demonstration	[30]	[44]	[...]
Resident Opportunity and Self-Sufficiency (ROSS)	[55]	[55]	[55]
Self-Help Homeownership Opportunity/Habitat	[20]	[20]	[22]
Youthbuild	[43]	[60]	[60]
Youthbuild Technical Assistance	[[3]]	[[4]]	[[2]]
Transfer to the Working Capital Fund	[...]	[15]	[18]
Community Empowerment Fund/EDI	[25]	[...]	[...]
EDI Special Purpose Projects	[259]	[357]	[...]
National Housing Development Corporation	[...]	[10]	[...]
Community Development Loan Guarantees:			
Credit Subsidy and Administrative Costs	30	30	15
Loan Guarantee Limitation	[1,261]	[1,258]	[609]

	2000 ENACTED	2001 ENACTED	2002 REQUEST
National Cities in Schools	5	...	...
Brownfields Redevelopment Program	25	25	25
Urban Empowerment Zones	55	185	150
Rural Empowerment Zones	[15]	[15]	...
HOME Investment Partnerships Program	1,600	1,796	1,796
American Dream Downpayment Fund	[...]	[...]	[200]
Transfer to Working Capital Fund	[...]	[17]	[20]
Technical Assistance and Management Information Systems	[27]	[22]	[14]
Housing Counseling	[15]	[20]	[20]
Disaster Assistance Supplemental (P.L. 106-246)	36	...	...
Homeless Assistance Grants	1,020	1,023	1,023
Technical Assistance and Management Information Systems	[10]	[...]	[5]
Transfer to Working Capital Fund	[...]	[15]	[9]
Interagency Council on the Homeless	[...]	[1]	[1]
Shelter Plus Care (Renewals)	...	100	100
Total, Homeless	[1,020]	[1,123]	[1,123]
America's Private Investment Companies:			
Loan Guarantee Limitation	[541]	[...]	[...]
Credit Subsidy and Administrative Costs	[20]	...	...
Housing Opportunities for Persons with AIDS (HOPWA)	232	257	277
Technical Assistance	[2]	[3]	[2]
Rural Housing and Economic Development	25	25	...
State/Local Capacity Building (Clearinghouse)	[3]	[...]	...
Indian Tribes, SHFA, et. al.	[22]	[25]	...
Subtotal, Community Planning and Development	**7,837**	**8,554**	**8,188**
PUBLIC AND INDIAN HOUSING			
Housing Certificate Funds:			
Section 8 Contract Renewals/Amendments	12,807	14,272	15,748
Offset	(2,167)	(1,304)	(640)
Across the Board Rescission (0.22%)	...	(25)	...
Subtotal, enacted	10,640	12,943	15,108
Tenant Protection/Replacement Vouchers	196	265	203
Family Unification	[...]	[11]	[...]
Advanced Appropriation for FY 2001	[(4,200)]	[4,191]	[...]
Advanced Appropriation for FY 2002	...	[(4,200)]	...
Contract Administration	194	192	196
Incremental Vouchers (34K)	347	452	197

	2000 ENACTED	2001 ENACTED	2002 REQUEST
Jobs Plus	[5]	7	...
Transfer to/from Other Accounts	104	...	...
Transfer to Working Capital Fund	...	11	13
Non elderly disabled	[40]	40	[40]
Housing Certificate Fund	**11,481**	**13,910**	**15,717**
Moving to Work Demonstration	5	[7]	...
Public Housing Capital Fund	2,884	2,993	2,293
Modernization TA	[75]	[50]	[41]
Emergency Cap Needs	[75]	[75]	[75]
Transfer to Working Capital Fund	[...]	[43]	[55]
Program Support	[...]	[...]	[14]
Revitalization of Severely Distressed Public Hsg Projects (HOPE VI)	575	574	574
Technical Assistance	[10]	[10]	[5]
Public Housing Operating Fund	3,138	3,235	3,385
Operation Safe Home	[...]	[...]	[10]
Drug Elimination Grants for Low-Income Housing	310	309	...
Operation Safe Home	[20]	[20]	[...]
New Approach Anti-Drug	[20]	[20]	[...]
Boys and Girls Club	[...]	[2]	[...]
Technical Assistance	[5]	[3]	[...]
Indian Housing Block Grants	620	649	649
Transfer to Working Capital Fund	[...]	[2]	[3]
Technical Assistance	[4]	[6]	[5]
National American Indian Housing Council	[2]	[...]	[...]
Title VI Federal Guarantees for Tribal Housing Activities:			
Program Account	[6]	[6]	[6]
Loan Guarantee Limitation	[55]	[55]	[53]
Indian Housing Loan Guarantee Fund:			
Program Account	6	6	6
Limitation Level	[72]	[72]	[234]
Subtotal, Public and Indian Housing	**19,019**	**21,676**	**22,624**
HOUSING PROGRAMS			
Housing Counseling Assistance	[15]	[20]	[20]
Housing for Special Populations:			
Supportive Housing for the Elderly	710	777	783

	2000 ENACTED	2001 ENACTED	2002 REQUEST
PRAC Renewals	NA	NA	[3]
Transfer to Working Capital Fund	[...]	[1]	[3]
CAP Grant (Rehab)/Conversion to Assisted Living	[50]	[50]	[50]
Service Coordinators	[50]	[50]	[50]
Disabled Housing (Section 811)	201	217	218
PRAC Renewals	[NA]	[NA]	[1]
Subtotal, Hsg. for Spec. Populations	**911**	**994**	**1,001**
FHA Funds:			
Mutual Mort. Ins. and Coop. Mgt. Housing Ins. Funds:			
Program Account			
Administrative Expenses	331	330	337
Non-overhead expenses	160	160	160
Mortgage Insurance Limitation	[140,000]	[160,000]	[160,000]
Direct Loan Limitation	[100]	[250]	[250]
General Insurance and Special Risk Insurance Funds:			
Program Account:			
Administrative Expenses	118	211	216
Non-overhead expenses	144	144	144
Credit Subsidy	...	101	15
Credit Subsidy Emergency Supplemental	...	40	...
Reappropriation of credit subsidy	[153]	...	...
Mortgage Insurance Limitation	[18,100]	[21,000]	[21,000]
Direct Loan Limitation	[50]	[50]	[50]
Manufactured Home Inspection and Monitoring	[NA]	11	17
Transfer to the Working Capital Fund	[...]	[130]	[160]
Subtotal, FHA Funds	**753**	**997**	**889**
Subtotal, Housing Programs	**1,632**	**1,991**	**1,890**
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION			
Guarantees of Mortgage-Backed Securities:			
Program Account	9	9	9
MBS Guarantee Limitation	[200,000]	[200,000]	[200,000]
Subtotal, GNMA	**9**	**9**	**9**

	2000 ENACTED	2001 ENACTED	2002 REQUEST
POLICY DEVELOPMENT AND RESEARCH			
Research and Technology	35	44	43
Technology Advancement Partnership (PATH)	10	10	...
Subtotal, PD&R	**45**	**54**	**43**
FAIR HOUSING & EQUAL OPPORTUNITY			
Fair Housing Assistance Program	20	22	23
Fair Housing Initiatives Program	24	24	23
Subtotal, Fair Housing Activities	**44**	**46**	**46**
OFFICE OF LEAD HAZARD CONTROL AND HEALTHY HOMES			
Lead-Based Paint Hazard Reduction	**80**	**100**	**110**
Healthy Homes	[10]	[10]	[10]
CLEARCorp	[1]	[1]	[...]
MANAGEMENT AND ADMINISTRATION			
Salaries and Expenses, HUD	477	542	556
Transfers (FHA/GNMA/CPD	[528]	[528]	[541]
Subtotal, Salaries and Expenses, HUD	[1,005]	[1,070]	[1,097]
Salaries and Expenses, OIG	45	53	62
Reappropriation of carryover (P.L. 106-246)	6	...	...
Transfers (FHA/PIH)	[32]	[32]	[32]
Salaries and Expenses, OFHEO	19	22	27
Consolidated Fee Account	NA	NA	(7)
Subtotal, Management and Administration	**547**	**617**	**638**
Subtotal, HUD Discretionary Budget Authority (Gross)	**29,245**	**33,045**	**33,548**
Current year Offsetting Receipts	(393)	(492)	(742)
Rescission Adjustment for non-HUD Programs	(492)	...	...
Reclassification of Receipts (MMI)	(1,864)	(2,246)	(2,402)
Subtotal, New Budget Authority for HUD Programs	**26,496**	**30,309**	**30,404**
Rescission of prior year appropriation of HUD programs:			
.38% Governmentwide Reduction	(72)	...	...
Section 8 /ACAH/Other Assisted/HOPE	(1,907)	(1,829)	...
Advanced Appropriation, FY 2001	**(4,200)**		
Total, HUD "Scored" Discretionary Budget Authority (Net)	**20,317**	**28,480**	**30,404**

Rates of homeownership by household type and income as percent of HUD-adjusted area median income, 1978, 1991, and 1999

Ownership rates by income:	Very-low	Low	Moderate
	0-50%	51-80%	81-120%
Families with children			
1978	37%	63%	78%
1991	31%	55%	71%
1999	35%	58%	75%
Nonelderly, no children			
1978	32%	38%	50%
1991	28%	36%	46%
1999	31%	39%	52%
Elderly			
1978	62%	80%	82%
1991	61%	80%	86%
1999	67%	83%	87%

Source: Calculated from the 1978 Annual Housing Survey and the 1991 and 1999 American Housing Surveys

BOSTON HOUSING AUTHORITY
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617-988-4000
TDD 1-800-545-1833 Ext.420

April 27, 2001

The Honorable Michael E. Capuano
United States House of Representatives
1232 Longworth Building
Washington, D.C. 20515

RE: Proposed Administrative Fee Reserve Reduction

Dear Mr. Capuano:

On April 24, 2001, I wrote to HUD Secretary Mel Martinez to raise the Boston Housing Authority's concerns regarding the Administration's proposal to reduce housing authorities' Housing Choice Voucher Program administrative fee reserve from two months of program funding to one month. This proposed administrative fee reduction is of great concern to the Boston Housing Authority, as well as to every other housing authority administering an efficient rental assistance program in an extremely tight rental housing market across the Commonwealth of Massachusetts. I am writing to share these concerns with you.

In October 1999, the Department of Housing and Urban Development ("the Department") implemented regulations allowing housing authorities to increase their payment standards for their Housing Choice Voucher Programs up to 110% of the fair market rent (FMR) established by the Department for their primary metropolitan statistical area. This regulation was enacted by the Department upon the determination that a housing authority's successful program administration requires flexibility in setting its subsidy levels in order to compete for private rental housing stock.

Again, late in the year 2000, the Department determined that even further subsidy increases were warranted in certain markets where housing agencies demonstrate that despite efficient program administration, rental assistance voucher holders are experiencing a less than 75% success rate in utilizing voucher assistance. As a result, the Department instituted regulations which allow housing authorities to apply to the Department for the discretion to use 110% of the 50th percentile rents as the payment standards for their Housing Choice Voucher Programs. The Boston Housing Authority applied for the discretion to utilize these increased or "success rate" payment standards and was granted such discretion by the Department on December 6, 2000.

As a result of this "success rate" increase in its payment standards, the Boston Housing Authority experienced an immediate increase in the number of private rental units in which vouchers could be utilized. These rental units were not previously available to the Housing Choice Voucher Program clients due to rent limits prior to the payment standards increase. These payment standards increases, in combination with the BHA's diligent and rigorous voucher issuance schedule, has allowed the Boston Housing Authority to achieve a high program utilization percentage and thus, the BHA maintains a very successful Housing Choice Voucher Program.

The BHA is extremely concerned, however, that the Administration's proposal to reduce housing authorities' Housing Choice Voucher Program administrative fee reserve will undermine the BHA's ability to take the necessary measures to compete successfully for apartments in a tight rental market. The already daunting task to locate affordable decent apartments in such a rental market is exacerbated by the statute which limits voucher holders to renting units where the maximum initial rent burden is 40% or less of the family's monthly adjusted income. Program participants must compete with other prospective tenants who are not subject to such a strict limitation. The only vehicle housing authorities have at their disposal which allows voucher clients to compete effectively for available units is the ability to increase the payment standards.

Pursuant to the Housing Choice Voucher Program renewal funding rule established by the Department in April 2000, a housing authority that finds it is necessary to increase its payment standards must utilize its administrative fee reserve to support such an increase. The use of these funds is necessary to support increased costs while continuing to pay the current property owners participating in the program according to the housing assistance payments contracts executed between owners and housing authorities. According to the renewal funding rule, the Department establishes a baseline number of units which it will fund for each housing authority. This number is equal to the greater of the number of units under lease or units allocated as of October 1, 1997, increased or decreased by the number of units allocated or rescinded thereafter. This "baseline" number is then multiplied by the actual costs per unit as shown on the housing authority's last approved previous year-end statement and then multiplied by an inflation factor.

When a housing authority raises the Housing Choice Voucher Program payment standards, the cost per unit to administer the program increases. Such increased costs, however, are not accounted for in the renewal funding equation because the Department

uses the costs per unit from the last approved year-end statement to fund the Program in the current year. Without allowing a housing authority to utilize an adequate program administrative fee reserve to support increases in the payment standards where necessary, housing authorities would be forced to choose between honoring current contracts with unit owners or utilizing unused vouchers. In other words, housing authorities would be forced to shrink the current program size to support increased costs.

Also, there are other extremely important uses for the current two months of program administrative fee reserves. The BHA has realized a successful Housing Choice Voucher Program by using funds creatively to help the most needy families locate housing in neighborhoods which provide a healthy environment for them within the City of Boston. The BHA currently administers, in conjunction with the City of Boston's Emergency Shelter Commission, the Security Deposit Loan Program. The BHA has set aside $100,000 of its financial resources for use by homeless residents in the City's shelters for security deposits on apartments. This resource has helped many homeless families and individuals move from the disruptive shelter environment to safe, decent and affordable housing in the private rental market.

Additionally, the Department has also issued Notice PIH 2000-49 as a result of the requirements contained in the lead-based paint regulations, which were effective September 15, 2000. That notice allows housing authorities to use its administrative fee reserve to pay for lead-based paint hazard clearance testing of units where the housing authority determines that lead-based paint hazards may exist. The notice states that a housing authority is required to ensure that clearance testing of certain rental units is conducted, and that the housing authority may not require property owners or voucher holders to pay for the initial clearance testing. Since the Department has not included funding with which housing authorities may pay for the necessary testing, the notice indicates that a housing authority which conducts testing or contracts for clearance testing may use its administrative fee reserve, which will later be reimbursed when a revised budget, including these additional costs, is approved.

Finally, the Council of Large Public Housing Authorities (CLPHA) has informed the BHA that the Department is considering allowing housing authorities to use the fiscal year 2002 proposed FMRs upon publication (which was expected in April 2001) to set its payments standards, in lieu of implementing these higher payment standards in October, 2001. The Department is considering allowing this early discretion by housing authorities in response to skyrocketing utility expenses. By doing so, housing authorities would be able to help families who have struggled all winter to pay astronomically high

heating costs. This discretion would allow the BHA and other housing authorities operating in a jurisdiction where the availability of apartments increases slightly in the summer months due to the departure of the college student population, to assist needy families in finding safe, decent, affordable and permanent housing. Without this payment standards increase, those available units may not be affordable in April, or available in October upon the return of the student population to the city.

However, the increased costs incurred from April through October will not be accounted for by current year housing authority budgets. Therefore, the increased costs would not be funded by the Department until after the approval of the next year-end statement. In order to implement these crucial payment standard increases while continuing to meet ongoing contractual obligations, housing authorities would be forced to shrink program size and assist fewer families. Thus, the continued availability of two months program administrative fee reserve is critically important and would allow housing authorities to continue to assist as many families as possible while maintaining a competitive Housing Choice Voucher Program by increasing the payment standards.

Congressman, I appreciate this opportunity to share with you our serious concerns, as there seems to be neither the understanding nor the appreciation of the impact of the actions proposed. The unintended consequences of this and other funding decisions made at the federal level further diminish the prospects of the nation's poor to find suitable and affordable shelter.

Sincerely,

Sandra B. Henriquez
Administrator/CEO

NAHRO National Association of Housing and Redevelopment Officials
building communities together
630 Eye Street, Northwest, Washington, D.C. 20001-3736 (202) 289-3500
Toll Free (877) 866-2476
Fax (202) 289-8181

April 23, 2001

The Honorable Barney Frank
The United States House of Representatives
RHOB 2252
Washington, DC 20515-2104

Dear Representative Frank,

The National Association of Housing and Redevelopment Officials wants your support for funding the Public Housing Drug Elimination Grant program in the amount of $410 million for fiscal year 2002. This critical program, described in the enclosed brochure, funds prevention programs and supplemental law enforcement activities in nearly 1,000 low-income communities across America.

The Drug Elimination Program is essential to the continued success these communities are having at reducing violent, drug-related crime. Even more importantly, Drug Elimination programs help keep our youth from becoming involved in violent and drug-related crime.

The Administration claims that the program duplicates efforts funded under other programs. NAHRO wants you to know that these efforts aren't duplicated—they're *leveraged*, so that smaller amounts of funding from a variety of sources can be used strategically to combat drugs and crime in low-income communities.

The enclosed data sheet shows the amounts that will be lost in your congressional districts if the Drug Grant program is not continued. Please, don't let these communities fall back into victimization, crime and despair. Fund the Public Housing Drug Elimination Program at $410 million for FY2002, and into the future.

Thank you.

Sincerely,

Richard Y. Nelson, Jr.
Executive Director

Karen Thoreson, PHM, President; **Kurt Creager**, Senior Vice President; **Lisa A. Baker**, Vice President-Community Revitalization & Development; **Tara Balfe Clifford**, Vice President-International; **Norleen Nordeo**, Vice President-Professional Development; **Charles B. Redd**, Vice President-Commissioners; **Steve Renahan**, Vice President-Housing; **Gerald "Jerry" E. Schock**, PHM, Vice President-Member Services; **Richard Y. Nelson, Jr.**, Executive Director

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IMPACT OF PROPOSED 2002 HOUSING PROGRAM FUNDING REDUCTIONS

MASSACHUSETTS	CONGRESSIONAL DISTRICT	4
REPRESENTATIVE	FRANK	

The Administration's Budget for FY2002 proposes a $700 million cut to the public housing Capital Fund program and elimination of the $310 million Public Housing Drug Elimination program (PHDEP).

The Capital Fund is used by housing agencies to: perform major repairs such as roofs and heating systems; install safety and security systems; modernize severely deteriorated units; conduct lead paint abatement; and other major items important to a healthy living environment for families. A 1998 HUD report indicated the public housing inventory requires $22 billion to address modernization needs.

The PHDEP program provides a variety of activities necessary to bolster public safety efforts in public housing. The program is focused on prevention of drug-use (including activities such as youth programs) and crime prevention related to illegal drugs trafficking. Most crime occuring in and around public housing communities involves non-residents attempting to victimize public housing residents. PHDEP funding is typically directed at the following activities: 37% crime prevention; 28% law enforcement; 13% security; 6% intervention; 8% investigation, improvements, and tenant patrols; 2% treatment; and 6% other related activities.

Local Housing Agencies affected by proposed cuts within your District:	7
Number of Units of Public Housing that could be affected by proposed cuts:	3,816
Number of low-income people that will be affected by proposed cuts:	7,939
Number of elderly households that could be affected by proposed cuts:	1,698

Impact of Proposed Funding Reduction on Local Housing Agencies providing assistance to low income families:

	Allocations Before[3] Reductions, FY 2001 Funding:	Allocations After Reductions, Proposed FY 2002:
Capital Fund Program:	$8,812,656	$6,704,866
Public Housing Drug Elimination Prog. Funds:	$790,390	$0

Total Amount of Reductions in this district: **$2,898,180**
(reduced amount of HUD allocations directly to housing agencies)

Notes: 1.) Report is based on available data. Figures for some states may be affected by missing data.

2).Housing agency and tenant characteristics are based on MTCS98 data.

3.) FY2001 Capital PHDEP awards are used as base year for reductions.

4.) Figures in the report are based on HUD allocations directly to housing agencies after set asides and HUD administrative overhead has been deducted from Congressional Appropriations.

Karen Thoreson, PHM, President; **Kurt Creager**, Senior Vice President; **Lisa A. Baker**, Vice President-Community Revitalization & Development; **Tara Balfe Clifford**, Vice President-International; **Norleen Norden**, Vice President-Professional Development; **Charles B. Redd**, Vice President-Commissioners; **Steve Renahan**, Vice President-Housing; **Gerald "Jerry" E. Schock**, PHM, Vice President-Member Services; **Richard Y. Nelson, Jr.**, Executive Director NAHRO e-mail: nahro@nahro.org Web Site: www.nahro.org

NEW BEDFORD HOUSING AUTHORITY

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PLEASE NOTE NEW TDD #: 508-997-4874

March 13, 2001

Representative Barney Frank
2252 Rayburn Building
Washington DC 20515-2104

Dear Representative Frank:

I'm sure you are aware that the FY2002 budget proposed by President Bush will savage public housing throughout the country. I have serious concerns related to the proposed elimination of the Public Housing Drug Elimination Program (PHDEP).

Public housing residents and their neighbors are proud and thankful for the manner in which the New Bedford Housing Authority Drug Elimination Program is managed, and their feelings are supported in an Audit Report of the HUD Office of the Inspector General. In the report to Congress and HUD, there was not a single recommendation for corrective action of our PHDEP after an extensive review of our PHDEP.

The conclusion of the Auditor's Report notes the New Bedford Housing Authority has taken positive steps to address drugs and crime and has been successful in eliminating open drug dealings in and around public housing developments, while also encouraging resident participation in drug prevention programs.

The Housing Authority's "No Trespass" policy and comprehensive drug prevention programs complement additional police presence paid for by the HUD Drug Elimination Program. Residents are encouraged to participate in their community, and the high visibility of supplemental police patrols funded through the Drug Elimination Grant give public housing residents a sense of security in diversified neighborhoods.

Evaluation studies conducted by the University of Massachusetts Dartmouth indicate the residents' perception and satisfaction with the improvements in physical conditions, safety, quality of life, and public housing vacancy rate since the implementation of our Drug Elimination Program (PHDEP).

In 1991 New Bedford, Massachusetts, was called by some as the most violent city in New England based on crime statistics. With assistance from the Drug Elimination Grant (PHDEP) which began in 1992, the New Bedford Housing Authority has been recognized by HUD for its drug and crime fighting efforts.

Representative Barney Frank March 13, 2001

The New Bedford Housing Authority has also been called upon by civic organizations, resident and neighborhood groups, HUD, and the American Society of Criminology to deliver presentations on how to prevent crime in public housing. We are viewed as a leader among public housing authorities for our efforts in crime (GIS) mapping and were recognized by HUD's Best Practices Award last year. We also received the NAHRO national and regional awards for our work in crime mapping.

The NBHA has created an atmosphere of safety and security in public housing neighborhoods which reflects favorably on the city. Our success in bringing about these changes can be directly attributed to the PHDEP. This is a remarkable achievement when you consider that crime, violence, and drug abuse are generally associated with poor communities and urban public housing neighborhoods.

Thanks to HUD's Drug Elimination Program (PHDEP) our public housing residents and their neighbors feel safe and secure in their apartments and homes. All of this would come to naught if these wonderful programs and security safeguards were terminated as proposed by President Bush's Budget for FY2002.

The New Bedford Housing Authority and other PHAs in the country need Congress' assistance to continue the Drug Elimination Program.

Sincerely,

NEW BEDFORD HOUSING AUTHORITY

Joe

Joseph S. Finnerty
Executive Director

CC: Representative Barney Frank
558 Pleasant Street
Room 309
New Bedford, MA 02740

MELVIN L. WATT
12TH DISTRICT
NORTH CAROLINA

COMMITTEES
FINANCIAL SERVICES
JOINT ECONOMIC
JUDICIARY

Congress of the United States
House of Representatives
Washington, DC 20515–3312

April 26, 2001

I would like to submit for the record copies of letters written by tenants residing in public housing units in Greensboro, North Carolina expressing support for the Public Housing Drug Elimination Program.

PLEASE RESPOND TO:

☐ 2236 RAYBURN HOB
WASHINGTON, DC 20515–3312
(202) 225–1510
FAX: (202) 225–1512
nc12.public@mail.house.gov

☐ 1230 W. MOREHEAD ST.
SUITE 308
CHARLOTTE, NC 28208–5214
(704) 344–9950
FAX: (704) 344–9971

☐ 301 S. GREENE ST.
SUITE 210
GREENSBORO, NC 27401
(336) 275–9950
FAX: (336) 378–5951

PRINTED ON RECYCLED PAPER

March 25, 2001

Greensboro Housing Authority
Church Street
Greensboro, N.C.

To Whom It May Concern:

This letter is in response to the recent meeting of the housing committee March' 2001. I feel that the reason why the need to keep the police/security at the housing complexes, is to ensure continued safety for its' residents and or the surrounding communities. The residents themselves have verbalized the degree of safety, with a decrease in crime rates and evictions. At having the police at these complexes/projects, has discouraged to a great deal the degree of prostitution,drug dealing, robberies, and deaths. It(police protection) gives the residents a sense of well-being and comfort, while in their homes. The police and the residents network together to ensure safety. If there is any further correspondence to this, please feel free to contact me at 336-389-9509, or at 1003-G Yanceyville Street, Greensboro, N.C. 27405.

Cordially,

Leroy Johnson

Leroy Johnson

Ie. MTH

April 1, 2001

Mr. Martinez.

My name is Janet Hicks, My husband and I live in the Hampton Homes Communities we move here in May 1991 and I am proud to say that the P.N.R.C. has done a lot for our Communities. It has gave us the opportunity to work with the Greensboro Police Department and each outher on getting the Crime and drugs out of our Communities. We now can sit on our porch and watch the Children's play without fear. And we also can have CookOut with our neighbors and friends.

Mr. Martinez I can say that the Crime and drugs has move out of our Communities and by haveing the P.N.R.C. in our neighborhood made it happen so what I am saying is that the P.N.R.C. and the Greensboro Police Department is the best thing for our Children and our Communities.

Thank You
Janet Hicks.

March 30th, 2001

Dear Mr. Martinez

My name is Donna Harris, and I have been a resident of public housing in Greensboro, NC. For seven plus years. I would like to employ you to reconsider the termination of the Police Neighborhood Resource Center. The presence of police officers in our neighborhood, in the office, and on foot patrol has dramatically decreased the crime rate here. The officers also handle conflict resolution between neighbors, this gives the residents alternative choices to violence. Our PNRC center also is a place of referral, health, legal, housing, parenting, substence abuse

education, employment, basic needs, Food, Finance, Clothes, Families + Youth, and Community services. If residents jus Need to talk, our PNRC staff is here to help in any way needed. The Greensboro Police Dept. also sponsors youth recreation activities for our children, who would other wise not get to venture out of the Communit This is important in developing and nuturing a positive relationship between our children and the police. The Foot patrols give our senior citizens an added sense of security, espec ially for the ones who live alone.

Seniors have Holiday Outing

Police officers from the Police Neighborhood Resource Centers (PNRCs) and GHA senior residents pose in front of the Golden Corral. The PNRC officers and resident councils of GHA's five largest sites took seniors out to dinner and to tour the Tanglewood Park Festival of Lights in December.

Mr. Martinez, this is just a portions of how beneficial the PNRC program has been. Our neighborhood resource center has been a positive addition to the community or gets better with each passing year. I invite you to come and see, and also speak with the residents of our five PNRC communities before a decision is made. Thank you for your time.

Sincerely,
Donna Harris
Hampton Homes Resident

Gloria Rankin
1801-B Hudgin Dr.
Greensboro, N.C
27406

March 30, 2001

Re: Keep the PNRC Open:

To Whom it May Concern:

The PNRC center in Greensboro Public Housing must be allowed to stay open and funding must continue to make this happen. Yes the drug dealing and crime rate has gone down some, but remember it has not gone away, the very instant that these center are closed down the drug dealer will move back in doubling their forces, then we will be back to square one, children not being able to play outside, Senior citizen afraid to come out of their apartment because they have to pass through these dealer and they prey on elderly and those that are afraid death and murder will climb and over take our community. How do I know, because I've been in this community thirty (30) years and this is what was happening before the PNRC was located in our community, you had to ask the drug dealers to excuse you so you could enter your own apartment.

Those of you that make the rules and say when funds should be cut off.

And program should be shut down, want the same thing we do, a safe community and a safe play ground, and strife free life for our child and families. If you close down these center or stop their funding, you are taking this away from us. Would you want your, Mother, grand-mother, wife, husband, child are any family member of your to walk through, sleep with dealer outside your home, wandering weather a stray bullet will take your life before morning comes or a day end. NO! and neither do we.

PLEASE RE CONSIDER our lives as in your HANDS.!

Thank you in Advance,
Gloria M. Rankin
Resident Council President
Smith Homes.

To - Mr. MARTINEZ

I'm a Resident of Greensboro Housing authority & think our Officers have done a wonderful Job as far as trying to Keep our Community Clean of drugs & other activites. They also try to work with Seniors & Children as far as taking them places that otherwise They wouldn't be able to Participate In. I really think you should let the PWRC Officers continue to do the Job it's doing.

Thank you,
a Concerned Resident.

April 2, 2001
Greensboro, NC 27406

Dear Mr. Martinez,

First, I want to thank you for taking the time out to read our concerns about our community. My name is Andriea Knight. I am a 24 year old college student and I live in Hampton Homes under Greensboro Housing Authority along with my mother, Myrtle Knight, who is a worker at the Police Neighborhood Resource Center(PNRC). We have lived here for over 13 years. The Police Neighborhood Resource Center(PNRC) has made an impact on my life and others as well. When I first heard about the PNRC, my thought was, "Oh my God, somebody else is coming into our neighborhood to try to take over again". But to my surprise, as time went, I saw that it was a great thing to have in the community.

The officers, Officer Christopher Melvin and Officer Davis, are excellent. We, as a community, work very close to them. They walk around the neighborhood to check on all of us, even the senior citizens. They have taken time out of their busy schedule to stop to talk to us and get to us personally. They have even sat down at some of our kitchen tables to eat with us on a cold rainy day. The officers get involved with the health fair and talk about crime, drugs, and safety. They are also involved with the National Night Out. Some of the officers even have mentor programs for the adolescents. They are involved in the children's lives. They have taken them on bowling trips, the Festival of Lights, and even to the movies. They have taken the senior citizens out on fishing trips, bowling trips, and even have a picnic just for the senior citizens. Since the officers have done these things, the crime has went down in our community. We feel safer about coming outside and just sitting on our porches. The children can play outside without us being afraid that someone is going to walk up to them and try to sell them drugs or even hurt them.

The PNRC has been a great help to people in need. First of all, the Center is not far from anyone. It is in walking distance. Secondly, we have so many programs and workshops to get involved in. For instance, we have the Drug Prevention Program, 12 Step Program, and Weed and Seed Apprenticeship Program. For people who want to know about computers and how to work them, we have free computers classes for all ages even the senior citizens. We have a computer lab for people who don't have computer labs. I know for a fact because I used to use the computers before I was able to get one of my own. We have an excellent clinic open on Tuesdays. The student nurses from UNC-G come over and take blood pressure, get your weight, and even help you in being healthy and tell you how you can stay healthy.

In conclusion, this is only a small amount of activities, programs, and workshops that are offered in our community under the PNRC. This place is a safe place to be. Personally, it has brung the community closer together. I just don't know the people that live around me but people on other streets. If you were to cut out the funds for the PNRC then the crime WILL go back up, drugs will BE BACK into our community, and the community will have nothing to do. The drug dealers WILL BE BACK to sell and contaminate our children, mothers, and fathers minds with the drugs that sell. We finally found

something that will help us stand up against some of the wrongs in our communities and now we know to say no to the things that we don't want around us. It is a shame that whenever you put something good into a community to help "poor people" out that someone comes right behind you and snatch it away as if it doesn't mean anything to us and have gotten the people involved who, at one time, did not get involved in anything. I am asking as a black college woman who loves her community and care about the people and their welfare that you would reconsider about taking these funds away. I give you some questions to ask yourself.

1) How would you feel if someone took something away from you that has had an impact on your childhood and adult life?

2) What would you do if you lived in a community where your children could not go outside to play and you were not going to move?

3) What if you were a senior citizen and lived in a community where you were scared that a drug dealer was going to run through or break in your house and take advantage of you?

I don't mean to come off as having an attitude or being upset but the fact of the matter is that we are tired of things that are going on. Again, I ask that you really reconsider your decision. May God be with you on making the right decision. Thank you again for taking the time to read this letter of concern.

Sincerely,

Andriea Knight
Myrtle Knight
Erlenia Stockton

Andriea Knight
Myrtle Knight
ERlenia Stockton

April 5, 2001

To Whom It May Concern:

I have been a resident of Public Housing for many years. There was a big problem with crime and drugs before the Public Housing Drug Elimination Program (PHDEP) started. Many residents, especially the kids, were always afraid and didn't feel safe in our communities. A lot of the people didn't want to come out of the house and the children didn't want to come out to play. Since PHDEP, the crime rates have gone down, police officers walk our communities and the drug dealers and other criminals are gone. It is a community where we can now live in peace. The Police Neighborhood Resource Center (PRNC) is where I work and I can tell first-hand the difference that PHDEP has made and I also know first-hand that we need this program desperately. I don't want to think what things would be like if this program ended. All criminals and criminal activity would return and the residents would go back to being fearful again. As a concerned resident of Public Housing, I'm asking that this very important program stay in our communities. We need this program in our communities, we need quality of life and I feel that PHDEP ensures quality of life for our residents and for our children.

Sincerely,

Evelyn Taylor

Evelyn Taylor

Morningside Homes
Resident Council President

MEMO

To whom it may Concern
I believe the R.M.K.C.
Should stay open because
having Police Officers
in the Community makes
our Community Safety.
Crime has been down
Since the R.M.K.C. opene
The officers are doing
a great Job. They have
taken residents to dinner
and Children Bowing, taken
residents Fishing
Some of our resident
would not go Places
like that if it were
not for our Officer

MEMO

3-27-01

To whom it may
Concern, Before the PNRC
Came to my Community it
was not so safe for Kids
grown up. and older Adults.
But Since we have officers
in my Community it has been
a big Change Since 1989
a lot of the drugs traffic has
Decreased with our officer in
force, please dont take them
away.

Thanks

MEMO

3-27-01

To Whom It May Concern
The four years I've been Knowing the Officer's that work in my Community has made my life and my Kids life worth living its been Quiet no gun fire not to much Drug traffice in the Community all the Children and adult Can play and sit out side in peace because we the people no we are being Kept from harmsway So please dont take away what Safe Keepings we have leave them here please

Thank You
Someone who Knows
we're safe at hands

MEMO

3-30-01

Mr. Martinez

I am a Resident Of Greensboro housing Authority. I am thankful for the PNRC program. The Police Officers that work in our communties make a big difference. They do a great job. We need our Officers PLEASE don't take away OUR Officers. Crim is down thanks to Officers.

Thank You

SPENCER BACHUS
8TH DISTRICT, ALABAMA

COMMITTEES:
BANKING AND FINANCIAL SERVICES
CHAIRMAN, SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY
TRANSPORTATION AND INFRASTRUCTURE
JUDICIARY

Congress of the United States
House of Representatives
Washington, DC

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SUITE 107
BIRMINGHAM, AL 35243
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NORTHPORT CIVIC CENTER
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PO DRAWER 569
NORTHPORT, AL 35476
(205) 333-8894
http://www.house.gov/bachus

April 26, 2001

Question for HUD Secretary Martinez - Housing Subcommittee Hearing 4/26/01

Dear Mr. Secretary,

I understand that last December, in a supplemental appropriation, $40 million in credit subsidy was appropriated for FHA multifamily insurance programs. These funds have not yet been released. These funds are critical to avoiding a shutdown in the multifamily new construction and substantial rehabilitation insurance programs. Without these funds, the available credit subsidy for FY 2001 will be committed literally in the next week or so. Some FHA lenders, including at least one in Birmingham, have already run cut of credit subsidy and will be forced to shut down projects.

I understand that the money will be released if HUD and the President designate the request as an emergency as defined in the Balanced Budget and Emergency Deficit Control Act of 1985. Can you tell me what HUD is doing to address this crisis? Is HUD willing to certify an emergency in order to release this money, which as I said earlier, has already been appropriated?

Thank for you for your time. Due to the urgency of this issue, I would appreciate your response as soon as possible.

Sincerely,

Spencer Bachus

Spencer Bachus
Member of Congress

PRINTED ON RECYCLED PAPER

Written questions submitted by Rep. John J. LaFalce
Submitted to HUD Sec. Martinez
Housing and Community Opportunity Subcommittee Hearing
April 26, 2001

QUESTION:

Your FY 2002 HUD budget shows an increase in the Section 8 account of $4.079 billion compared to FY 2001 (excluding the $197 million for 33,700 incremental vouchers). [Note: this number is prior to your offset of $640 million of these increases through the policy change of reducing Section 8 reserves from 2 months to 1 month].

Of this $4.079 billion increase in Section 8 budget authority, it appears that a significant portion of this increase includes declining levels of recaptures and renewals of expiring long-term contracts, neither of which directly increase spending [outlays] by a single dollar.

In this light, please break down this $4.079 billion increase in FY 2002 Section 8 budget authority increases according to the following categories:

(1) Explicit rescission of FY 2001 recaptures not projected to recur in FY 2002 [note: both the FY 2001 VA-HUD bill and your budget show this as $1.829 billion],

(2) Additional projected recaptures of Section 8 funds in FY 2001 not projected to recur in FY 2002 - which were not displayed as rescissions, but simply used as internal offsets to reduce an otherwise higher level of Section 8 budget authority (you may need to consult with the Appropriations Committee to get this number for FY 2001).

(3) Multi-year Section 8 contracts expiring in FY 2002, which required zero budget authority in FY 2001, but require budget authority in FY 2002 for renewal

(4) Section 8 budget authority increases which result from higher per tenant rental subsidy costs for existing Section 8 tenants

(5) All remaining Section 8 budget authority increases (please give some indication of cause of such increases)

QUESTION:

Do you project that demand in FY 2002 for FHA loan guarantee programs like multi-family housing which require a credit subsidy will exceed available appropriated credit subsidy? If so, please explain your plans to suspend or curtail loan guarantees for such programs.

Last December, Congress appropriated $40 million in supplemental credit subsidy for FHA loan guarantee programs which require a credit subsidy. Do you plan to utilize this credit subsidy? If your answer is that you do not plan to use this because you do not consider this an emergency, please provide a justification why it is not. If your answer is that you do not plan to use this because you cannot comply with the Anti-deficiency Act, explain why not.

CONGRESSMAN GARY MILLER

Questions – Housing Affordability Crisis in America

Housing and Community Opportunity Subcommittee Hearing – April 26, 2001

The Honorable Mel Martinez, the Secretary of Housing and Urban Development

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QUESTION 1:

Recent reports have found that millions of families, even families with an adult working full time, cannot afford to buy or rent a home. HUD reports many housing authorities where families return rental vouchers because they cannot find a decent place to rent.

In these tight housing markets, how should HUD respond to requests for government stimulation of the market to create additional low- and moderate-income housing?

QUESTION 2:

What would you think of a federal law that requires all agencies to consider the impact on housing Affordability when writing new regulations?

QUESTION 3:

On April 19th, HUD announced that they were out of money for the credit subsidy for FHA multifamily insurance programs. As I understand it, this is in part due to a failure by the previous Administration to make the certifications necessary to obtain the release of $40 million in supplemental funds approved last December. The result is that hundreds of projects all over the country will not be built or will be substantially delayed.

With the affordable housing needs critical and the stimulus provided by the construction of these projects, how can we work together to secure release of these funds?

QUESTION 4:

The multifamily FHA loan limits have not been increased since 1992; I applaud the Secretary's announcement of support for increasing the multifamily FHA loan limits.

Would you also support a proposal that would allow for adjustments in the loan limits to reflect changes up or down in inflation?

CONGRESSMAN GARY MILLER

Questions – PHDEP

Housing and Community Opportunity Subcommittee Hearing – April 26, 2001

The Honorable Mel Martinez, the Secretary of Housing and Urban Development

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QUESTION 1:

My concern is with the President's budget to eliminate the Public Housing Drug Elimination Program (PHDEP).

Though I share your concern for its record of ineffectiveness, I strongly support the essential purpose of PHEDP — to eliminate drug-related and violent crime and problems associated with it in and around the premises of Federally assisted low-income housing, and public and Indian housing developments.

PHDEP needs to provide **PREVENTION** funds for housing authorities that have a proven track record — those who had crime statistics in the past, but have succeeded in eradicating the criminal element and need to continue to work to keep it that way. It is cheaper to prevent than to cure, and better for families. It is also important to reward rather than penalize success.

Historically, local housing authorities applied for PHDEP funds when HUD issued a Notice of Fund Availability (NOFA) and housing authorities competed with each other for the funding available. This is no longer the case.

Instead, thanks to HUD, the Competitive Application process was changed on May 12, 1999 in favor of a formula funding program. This new criteria for PHDEP funds favors those agencies with severe crime and drug prevention problems in both public housing developments and in the community. As a result, housing authorities and communities that run good public housing programs and had established local crime and drug prevention programs before HUD developed PHDEP, and had received these funds in the past, are no longer eligible to receive funding under PHDEP.

Last year, I offered an amendment to H.R. 1776, the American Homeownership and Economic Opportunity Act, to address this problem. My amendment was accepted a part of the House-passed H.R. 1776 but, unfortunately, the bill ultimately died in the Senate.

My amendment would have modified the eligible local housing authority definition for the HUD PHDEP grants to include local housing authorities that can show evidence, through local efforts between the housing authority and police department, that they were able to eliminate drug and

crime problems in public housing. Just because these communities have been successful does not mean they should be ineligible to receive funds. In no way would my amendment have taken money away from other communities. All it would have done is open up the eligibility requirements of to include successful housing authorities.
The City of Upland, California is a perfect example. Upland was one of many housing authorities faced with severe drug and crime problems in the past. However, they chose to take control and started a program in 1980 with the full support of the Upland Police Department. Today, Upland has one of the lowest crime rates in public housing in the country. But now the city is facing financial difficulties and it is becoming increasingly difficult for the police department to give this program the same level of services it has had in the past. Under HUD PHDEP definitions, they are ineligible to receive funds to continue this successful program. The City of Upland does not stand alone. Every Member of Congress is faced with this same challenge in their districts.

This is a simple case of HUD rewarding housing authorities for doing a bad job and punishing those that have worked to reduce or eliminate the drug problem in their communities. Those successful communities should be able to continue their programs using PHDEP funds.

Assuming the Congress funds PHDEP, would you consider a regulatory change to PHDEP to modify the eligibility criteria to recognize local housing authorities and their partners who have successfully reduced crime in their jurisdictions but need continued funding to maintain anti-crime programs to sustain reduced levels of crime?

CONGRESSMAN GARY MILLER

Questions – HUD Inventories of Foreclosed FHA Homes

Housing and Community Opportunity Subcommittee Hearing – April 26, 2001

The Honorable Mel Martinez, the Secretary of Housing and Urban Development

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Question 1:

I have another concern with HUD and the money the Department is losing by keeping large inventories of foreclosed Federal Housing Administration (FHA) houses. Just let me list off a few statistics, and let me know if these numbers reflect a strong agency performing well in a good economy:

- FHA mortgage insurance paid almost **77,000 claims** worth about **$6 billion in 1998.** That cost is passed onto the consumer through higher premiums.
- In 1997, single family homes stayed in the Federal inventory for an average of 5.4 months. In 1998, the average time in inventory increased to 6.6 months, and last I checked it was still increasing.
- In 1996, HUD had 25,000 single family properties in inventory. In 1998, the inventory had increased to 40,000, and as of June 30, 1999 HUD had 50,000 properties in inventory.
- The HUD single family inventory was valued at $1.9 billion in 1996. It increased in value to $3.3 billion in 1998.
- 15% of HUD's property is held in inventory more than 12 months. That is compared to the industry average of between 2% and 3% in inventory more than 12 months.
- In 1996, average loss per property was $28,000. In 1998, the average loss had increased to $31,700 (12% increase), and as of June 30, 1999 the average loss number was $32,470. If you multiply the 50,000 properties in inventory by the average loss of $32,470, that is a loss of more than $1.6 billion.

This is not just a theoretical problem for my district and many districts throughout the country. When I last checked, the City of Pomona had in excess of two hundred properties in their HUD inventory. Local officials are frustrated with the excessive number of boarded-up properties in their neighborhoods.

This is a prime example of what happens when you put the Federal government on "autopilot."

Mr. Secretary, can you please share with us what the new Administration and HUD now plan to do to end this abuse and waste of taxpayer dollars?

QUESTIONS FOR HUD SECRETARY MEL MARTINEZ
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
HEARING 4-26-01

Cong. Charles A. Gonzalez:

1. Mr. Secretary, I am deeply concerned by the recent Administration proposal to cut $700 million from the HUD Capital Fund program. In my district the San Antonio Housing Authority (SAHA) has calculated that it currently has approximately $175 million in capital improvements it needs to make over the next ten years. Additionally, according to a recent HUD analysis there is a $22 billion backlog in capital repairs nationally. The President's budget justifies the reduction in Capital Fund spending on the grounds that there is a backlog in unspent funds. But, as you are well aware, unspent does not mean unobligated, and in fact much of this backlog in spending is already committed to ongoing projects. SAHA, for example, estimates that 98% of its current capital fund is already obligated. Mr. Secretary exactly why does your Department recommend a 25% cut in the Capital Fund program? How will the Department ensure that the current backlog in capital fund improvements is not exacerbated by this cut?

2. Mr. Secretary, the Drug Elimination Program has been a tremendous success in my district. In San Antonio, under this program almost 30 off-duty police officers have been hired to enforce security at public housing sites. This has resulted in a significant decrease in crime in San Antonio's public housing complexes. Mr. Secretary, how does your Department justify the elimination of this program? Additionally, what steps does your Department plan to take to ensure security in public housing areas?

Cong. Barbara Lee:

1. Several of us joined Congressman Barney Frank in writing to appropriators for a supplemental appropriation for additional funding for the Public Housing Operating Subsidy to cover significant and unexpected increases in utility costs being experienced by public housing authorities. This is particularly critical for those of us from California and other Western states experiencing an energy crisis. Are you supportive of this initiative – approximately $362 million to cover increased utility costs?

2. As you know, in the Housing and Community Development Act of 1992, Congress defined the community land trust model and recognized their significance in developing and preserving affordable housing. This legislation also made HOME funds available for a range of technical assistance services to community land trusts or CLTs. As CLTs are becoming widely viewed as an ideal complement to Smart Growth strategies and a critical tool in preventing displacement of low income people in gentrifying communities, technical assistance to CLTs is increasingly

important to ensure their success.
HUD's contract with the Institute for Community Economics, the national intermediary that developed the CLT model and supports community land trusts across the country, is expiring.

Will CLT's continue to be a priority in this administration and do you plan to renew this contract? We'd like a commitment from you to make sure this valuable technical assistance continues to be available across the country.

Rep. Janice Schakowsky:

OVERALL BUDGET

- I noticed that the President, in his HUD budget proposal, revised last year's HUD budget number down. In fact, the President's budget proposal says that Congress spent $4 billion less than what we thought we spent. I would like to understand the reasoning behind that. Did we provide fewer Section 8 vouchers than we thought we had? Did fewer people receive homeownership counseling? Did people get less money in downpayment assistance? Was there less of any service provided or fewer people served? Is the reduction just on paper?

VOUCHERS

- I noted in your testimony that you suggest we should issue fewer new vouchers than in years past because we didn't use all the new vouchers previously issued. I know we can't use every voucher. There isn't enough housing to use a every voucher. This budget, however, reduces new vouchers by 50 percent. Did we only use 50 percent of the vouchers issued nationwide?

NEW HOUSING PRODUCTION

- In your testimony, you seem to put most of the onus of low utilization rates on mismanagement. Before a family can use a voucher, however, they've got to find an apartment. In Chicago, according to a 1999 study done by the University of Illinois, we are short 155,000 units of affordable housing. We are at-risk of losing over 16,000 more units of project-based Section 8 affordable housing. In Chicago, we think we have to build more housing if we are going to raise our utilization rate above its current 85 percent, which I understand is one of the best in the nation. How do you propose fixing our problems in Chicago without building more housing?

EVICTIONS

- In Illinois, I have been receiving an increasing number of reports about tenants in public housing being evicted because they have criminal records. People who have long ago paid their dues to society and who are otherwise living productive lives, are being denied access to an affordable place to live. Do you think we should reconsider this policy?

Cong. Nydia Velazquez:

It is my understanding that HUD is looking to play a primary role in the promotion and expansion of President Bush's faith based initiatives. While I have my concerns about this program, I am a strong supporter of incorporating CBOs into the process of expanding the stock of affordable housing. However, in New York City we are experiencing a serious problem with the 203K program, which involved bank foreclosures on over 500 of the 203K properties. CBOs, many of which were from other parts of the country, that HUD chose over our local organizations to take part in this program, were inappropriately qualified for larger mortgages than they can afford to pay off. This put tenants at risk and damaged many well-intentioned CBOs.

Given the problems that HUD has experienced in recent years effectively implementing and overseeing its existing programs which rely on community-based organizations, how to you propose to expand this role without exacerbating the problems?

HUD's NY Office has been actively involved in making sure that none of the tenants of the 203K properties which have been foreclosed on are displaced. I have appreciated their work on behalf of these residents.

However, I would like to know what steps your agency is taking to ensure that these problems do not repeat themselves in future properties brought into this program?

The need for the Section 8 vouchers is so overwhelming that the New York City Housing Authority closed the waiting list for this program in December of 1994. No other applications have been accepted for 76 months. Yet despite this drastic measure, as of March 1st of this year, there were still over 156,000 families on the Section 8 waiting list in New York City. Under the President's budget, it would take over four and a half years just to eliminate the six year old back-log in NYC.

I am interested in knowing on what statistics the Administration based its decision that

we were in need of less than half the number of incremental vouchers appropriated last year?

It is my understanding that these vouchers will be distributed to state and local housing agencies that have demonstrated an ability to effectively use their existing vouchers. A need for these vouchers clearly exists in my district, and in many other urban centers around the nation. **Given this continuing demand, would it not make more sense to revisit the formula by which these vouchers are distributed rather than cut the number funded?**

As you have stated, NYC has had greater success in utilizing its Sec. 8 vouchers than many other localities. A large reason for this success has been the City's ability to aggressively put the vouchers out on the market because they are supported by the two month Section 8 reserves. By cutting this reserve to one month, you will be crippling the effectiveness of the very model you touted at our hearing. In fact, in 1999, a senior HUD official was quoted as saying that such a reduction in reserves would represent "a serious threat to housing the baseline families." **How do you reconcile this?**

Given that in several neighborhoods around the country tight housing markets and escalating costs have resulted in vouchers going unused, how can you continue to justify the decision not to support a housing production program?

The Drug Elimination Program, which was funded last year at $309 million has been cut. It has been your contention that the $150 million increase to the Public Housing Operating Fund can be used for a wide variety of purposes, including the continuation of successful anti-drug efforts. However, you have also specifically stated that you expect this money to cover the rising utility costs.

Given that estimates are that in the next year utility costs for PHAs will rise by nearly $300 million and the DEP cuts are another $309 million less in appropriations, how can you expect that an increase of $150 million will cover the costs of both of these programs?

Is it your contention that PHAs should choose between heating their apartments in the winter and providing effective drug elimination programs? Can these really be considered an either/ or scenario?

The new Administration has eliminated or temporarily shut down a number of programs which are designed to increase the day to day police presence in local communities. The Justice Department eliminated community policing and HUD has temporarily shut down the Officer Next Door program. I am concerned about the message this is sending and the impact it is going to have on our neighborhoods, particularly those low-income and minority communities where distrust between residents and cops is at an all-time high.

In light of the recent events in Cincinnati, and reoccurring problems in many other urban neighborhoods, it is my belief that we should be fostering daily communication and interaction between local residents and law enforcement officials who serve in these areas. However, rather than building on some of the successful programs we have developed to foster trust between these groups, we are shutting them down.

How does the Administration intend to address the dual issues of growing distrust of the police and decreasing security levels resulting from the termination of these two programs?

Under the President's proposed FY 2002 budget, HOPWA would receive a $20 million funding increase. However, several jurisdiction are also supposed to be added to this program. While I firmly support the decision to expand HOPWA's jurisdiction, I am concerned that, in light of rising costs, the proposed 7.7 percent funding increase will not be enough to cover the addition of several new localities, while maintaining the levels of service currently provided.

How many new localities are going to be added to the HOPWA program in FY 2002 and what are they?

How much does HUD estimate it will cost to fund HOPWA only in those cities?

Given these numbers will HUD be able to provide for the already existing HOPWA projects at least the 4 percent across the board increase being touted by President Bush?

Cong. Barney Frank:

1. In your testimony, you indicated that you have found instances of mismanagement and inappropriate use of funds in the Public Housing Drug Elimination Program. You use this evidence as the basis for your termination of the entire program. Would you please detail the specific instances you are referring to as well as listing *all* the instances of such inappropriate uses of funds with a particular emphasis on the period from 1997 to 2000? Please list the nature of the mismanagement or inappropriate use of funds, the location, and the source of the data. Please clarify whether HUD had approved the activity in advance. Please supply any audit findings on the program from 1997- 2000. Please quantify what proportion of funds for the overall program these instances represent. Please detail what internal actions HUD has taken to address the problem.

2. In your testimony, you indicated that you feel that many public housing authorities are underutilizing Section 8 vouchers due to mismanagement. Could you please cite the PHAs with low utilization
rates that are a result of mismanagement? Could you detail their utilization rates along with HUD's conclusions regarding the mismanagement that resulted in the underutilization?

3. In your testimony, you cited a Department of Energy analysis that found that energy costs are projected to decrease during the next year(s). Could you please supply a copy of the relevant portion of that report to the Subcommittee?

4. In HUD's most recent Worst Case Housing Needs study, issued in January 2001, the disabled were one of the few groups whose needs did *not* fall. In fact, the report states:..."three-fifths(60 percent) of the unassisted disabled have worst case problems, a *higher rate than that of any other household type...*" Could you please provide HUD's rationale for eliminating $40 million in funding for 8,000 incremental vouchers for the disabled? What steps does HUD plan to take to ameliorate the housing needs among the disabled this year?

THE HONORABLE PETER T. KING
Question Submitted to the Honorable Mel Martinez
Secretary of Housing and Urban Development
Before the House Financial Services Subcommittee
On Housing

April 26, 2001

Secretary Martinez, let me first say that I look forward to working with you and your staff during this 107th Congress to solve the many difficulties we face in our urban centers and to make home ownership a reality for as many Americans as possible.

As you may be aware, I have for a great many years been working with previous HUD Administrations and the town of Hempstead, NY to facilitate the conversion and utilization of the Bellmore Logistics Facility (a 1995 BRAC installation with surplus property) pursuant to the Base Closure Community and Homeless Assistance Act of 1994. It is my understanding that, to date, all parties involved in the negotiations concerning the reuse plan for this facility have agreed upon a mutually beneficial course of action. That said, I am told it was HUD in the later part of the previous Administration that stalled the efforts to move forward.

My question to you is how can we work together to facilitate the implementation of this reuse plan so as to provide mutual benefit for both the area's homeless assistance groups and the community around the closed facility? I eagerly await your response and look forward to working with you and your staff.

Should you need further information on this matter, please contact my Financial Services Committee counsel Tom McCrocklin directly at (202) 226-3516.

Roukema Written Questions for Secretary Martinez

Thursday, April 26, 2001

Actual Budget Numbers FY 2001 vs. FY 2002 Increase or Decrease

1. Mr. Secretary, the Administration's FY '02 budget proposal purports to increase the HUD budget by 7%. However, critics of this budget actually claim a decrease in the FY '02 budget by $1.3 billion or $2.2 billion if you adjust for inflation.

   A. Could you explain the difference between the $28.480 billion FY '01 number you cite as the '01 budget number and the $32,390 billion number cited by the outgoing Clinton Administration?

   B. How can you explain why the Clinton Administration ignored a $1.829 billion rescission of Section 8 funds, as scored by OMB/CBO?

2. There is some speculation that HUD has significant unexpended balances, i.e. funds that were appropriated in previous years but not spent. For example, in the past two years, Congress has rescinded almost $2 billion of balances, using the funds for other purposes. What is the estimate of HUD unexpended balances and how does that estimate factor into HUD's ability to evaluate the department's funding needs?

Faith-Based Initiatives

3. Under the Community Development Block Grant program, HUD's budget proposal includes a set-aside for $20 million in competitive grants to provide funds to civic, community and religiously affiliated and other organizations that are exempt from the American With Disabilities Act requirements to make their facilities accessible to the disabled.

   A. Specifically describe what types of organizations would be eligible to receive these grants.

FHA Mutual Mortgage Insurance Fund Reestimates

4. FHA mortgage insurance has provided the avenue to home ownership for millions of first time homebuyers and the ability to continue to move up to millions of repeat buyers. Do you believe the mortgage insurance fund is in excellent shape? Do you see any changes to the single family FHA program, perhaps lower insurance premiums or more generous underwriting standards?

5. As I understand, the FHA Mutual Mortgage Insurance Fund, which covers the popular single-family homeownership program, usually provides a negative subsidy, meaning that the program has a positive budget impact and does not cost the government from a budget perspective. Yet, the latest budget appendix shows that the "total subsidy outlays" for the MMI Fund in FY '00 were -$1.854 billion. However, the same table shows that in FY 2001, the total subsidy outlays are projected to be +$1.344 billion—not a negative subsidy but a positive expense.

   A. There appears to be a pattern, particularly in the last Administration of providing rosy FHA budget scenarios that ultimately require a re-estimate, costing the government money. Why are we having these re-estimates? Is it possible that the FHA Mutual Mortgage Fund is not performing well, over the last two years?
   B. As a related question, we read the shift from a net negative subsidy to a positive subsidy as $3.049 billion in "re-estimates of loan guarantee negative subsidy." Is this correct, and does this mean that FHA is experiencing very high default rates? Could this trend continue over the next two budget years?
   C. How can you assure this Committee that the FY '02 FHA subsidy estimate of -$2.501 billion is accurate?
   D. What legislative or regulatory reforms are you anticipating to ensure that FHA remains profitable, rather than a potential liability to the taxpayers?

Public Housing Funding

6. Mr. Secretary, the FY '02 proposed budget increases the operating subsidy for public housing authorities by $150 million. At the same time, the budget proposes to decrease funding for the **capitalization/modernization fund**, which I understand is necessary to refurbish public housing units. Yet, the previous Administration left a $6 billion backlog in unfunded or unobligated funds. I further understand that a march 2000 report was prepared for the Department on the capital needs of the public housing stock where 1.2 million units of public housing were unmet or about $22.5 billion or almost an average of $19,000 per unit.

   A. Could you explain the importance of the modernization fund and why there is such a significant backlog of unobligated funds? To what extent are the capital needs growing each year—accrual needs, in addition to the existing backlog? What is the level for unobligated funds versus unused funds? How is the backlog of needs prioritized?
   B. How will HUD distribute the $6 billion that is available to PHAs?
   C. How do you respond to public housing authorities who claim that they are following the rules, particularly established by regulation and in the 1998 public housing reform bill, that allows them a three-year timeline to obligate funds and therefore the $6 billion backlog is merely an allusion?
   D. I understand that the $700 million decrease will be across-the-board. Will this across-the-board approach have unintended consequences for those public housing agencies that have few or no unexpended balances because they spend their funds in a timely manner?
   E. Has the Department made any assessment as to the number of properties within the public housing inventory where it wouldn't make economic sense to make the needed repairs given both the cost of improvements and the ongoing costs of operating the properties relative to their economic and social value? If the Department has made such an assessment, what were the results? If no assessment, why?

7. HUD states that it is providing $105 million of FY '01 Public Housing Operating funds to quickly respond to rising utility costs. The Department states that it will distribute $55 million of these funds by formula and provide $50 million to PHAs with extraordinary utility rate increases. As a result of the utility rate increases, HUD is requesting an additional $150 million over FY '01 Public Housing Operating Fund funding levels

   A. What basis did HUD use to estimate that PHAs will need an additional $105 million for utility costs this year and an additional

$150 for FY '02?

B. Is the entire $150 million requested to help PHAs pay for utility rate increases?

C. How would HUD allocate the additional funding requested for utility rate increases?

8. **Drug Elimination:** The HUD FY 2002 budget proposes to eliminate the Public Housing Drug Elimination Program, which provides formula grants to local housing agencies to help reduce activity in public housing. Part of HUD's rationale is that the program is 1) duplicative, 2) other Federal funds are available and 3) a misuse of funds, as designated by the HUD Inspector General.

   A. Mr. Secretary, how do you respond to criticism that the program is necessary to fight crime in public housing developments where it appears that crime statistics are the most startling?

   B. Before the creation of this program, how were the public housing authorities handling crime issues? Were the local governments involved? Did you see a segregation of public safety/crime-fighting services after the Drug Elimination grant program was implemented?

   C. The HUD Inspector General provides a number of examples of how these funds were misused. One of the most glaring examples is the Creative Wellness initiative where funds were spent to provide cosmic cycle updates on the spiritual awakening and transformation of the global world body***as well as $860,000 to the National Institute for Medical Options to provide programs on god/goddess typing, etc. Could you expand on the abuses you found that might have provided the foundation for eliminating this program?

   D. What is the existing authority of the public housing authority to continue these crime-fighting activities? How can we encourage more collaboration between local government police forces and the communities in which they are supposed to serve?

   E. Do you anticipate any harm to these communities by elimination of these funds?

9. Drug Elimination: In FY '01, $20 million of the $310 million appropriated for the Drug Elimination Program was appropriated to the HUD Inspector General to carry out Operation Safe Home, an OIG program to combat drugs and violent crime in public and assisted housing. The President's Budget proposes reducing funding for Operation Safe Home to $10 million and funding Operation Safe Home from the Operating Subsidy through public housing authorities.

   A. Why is the Operation Safe Home funding being reduced and is there a contradiction in funding this program that provides some

crime-fighting support, while at the same time eliminating the Drug Elimination program because it may not be part of HUD's mission?

B. Why is the Operation Safe Home funding being continued? Has HUD found this program to be effective in a way that the Drug Elimination program has not?

C. What oversight is done of the Drug Elimination program grant money that goes to the Inspector General?

10. Can you update the Committee on HUD's progress in compiling and publishing the inventory of assisted housing properties that have changed their tenant selection policies to favor elderly over non-elderly disabled in accordance with Title VI of the Housing and Community Development Act of 1992?

HOME

11. For FY '02, the budget dedicates $200 million within the HOME Investment Partnerships program for President Bush's new initiative, the American Dream Downpayment Fund. While I strongly support this new initiative to provide downpayment assistance to low-income families, I am concerned about criticism that that the proposal would divert much-needed funding from the HOME program.

A. Is there any validity to these arguments that this program would be in conflict with HOME program goals, designed to provide State and local governments with the flexibility to address housing needs as they see fit?

Community Development Block Grants

12. As of September 30, 2000, the CDBG program maintained an unexpended balance of $9.9 billion. $2.8 billion has been identified in the state portion of the program.

A. How much of the remaining $7.1 billion can be attributed to entitlement communities and other programs?

B. In addition, how much of the unexpended balance is the result of ACAH (Annual Contribution for Assisted Housing) transfers? Please explain what is ACAH?

13. HUD's FY '02 budget request indicates that $277 million in obligated but unexpended funds have been transferred into the CDBG program.

A. What portion of this amount was transferred from the ACAH (Annual Contributions for Assisted housing) account and does this

amount represent the full amount transferred?

B. To what extent does HUD know the availability of these funds?

Rural Housing and Economic Development

14. The FY '02 budget proposes terminating HUD's Rural Housing and Economic Development program. The program made $25 million available for FYs 1999 and 2000 for building capacity of local rural nonprofit organizations, community development corporations, and other local organizations. The reasons given for program elimination are that it duplicates several programs, including CDBG and programs of the Department of Agriculture.

    A. Has any work been done to measure the effectiveness of HUD's FY '99 and '00 Rural Housing and Economic Development program?

    B. GAO suggested merging the HUD and USDA capacity building programs in order to make the process more efficient and cost-effective. Has any consideration been given to moving all or part of these program funds to USDA so that one organization could oversee capacity building for both large and small nonprofit rural organizations?

Partnership for Advancing Technology in Housing

15. Mr. Secretary, the Partnership for Advancing Technology in Housing (PATH) is vital to the accelerated development of new housing technologies, designs and practices that can significantly improve the quality of housing and save energy without raising the cost of construction. As you know, however, the budget assumes elimination of this program. With the current energy crisis, should Congress review the importance of this program, which facilitates the production of energy efficient homes?

Special Needs Housing

16. The President's FY '02 budget proposes to freeze funding for the Section 811 program at $217 million. Given the increase in per unit costs likely to occur through inflation and added funds needed to renew expiring contracts, would this proposed freeze result in fewer units being produced through the capital advance/project-based portion of the program?

17. Efforts initiated in the last Congress began the process of promoting greater flexibility in the Section 811 program to allow non-profits develop, rehabilitate, purchase, or rent small scale or scattered site housing desired by people with disabilities. For example, P.L. 106-569 (Section 842) for the first time allows non-profits to layer the LIHTC (Low Income Housing Tax Credit) with Section 811 funds by collaborating with a for profit partner. These and other legislative

and regulatory reforms are essential to speed up production and eliminate years of cumulative "red tape" and bureaucracy.

A. Does HUD support keeping the primary focus of Section 811 on production of housing for people with the most severely disabilities with no more than 25 percent for the funding being targeted for tenant-based rental assistance as set forth in Section 843 of P.L. 106-569?

B. Would you be willing to work with members of this Subcommittee on legislation that builds on the provisions in P.L. 106-569 to further streamline the Section 811 application process to promote greater program flexibility to help non-profit sponsors develop smaller, scattered site housing?

Section 202 Elderly Housing Program

18. Regulations state that Section 202 elderly-housing projects must reach initial closing, the point at which construction of the project can begin, within 18 months or HUD can recapture the funds. HUD may grant waivers up to 24 months for those projects under certain limited conditions. However, in its April 2000 study of the program, Arthur Anderson reported that from FY '91 through FY '98, 45% of the elderly housing projects did not reach initial closing within 24 months of award of the funds. In addition, Arthur Anderson reported that HUD rarely recaptures Section 202 funds.

A. Approximately how many Section 202 projects representing how much funding are currently over the 24-month timeframe for reaching initial closing?

B. Generally, why are these projects delayed?

C. Can funding be recaptured from these projects? If so, approximately how much? If HUD cannot recapture funding from these projects, why not?

19. Prior to 1991, HUD provided capital assistance for Section 202 housing through long-term direct loans and 20-year rental assistance contracts under the project-based section 8 program to cover reasonable construction and operating costs. In March 2000, HUD reported that about $3.9 billion in unspent Section 8 funding are obligated for the Section 202 projects funded with direct loans. Section 202 sponsors with direct loans can prepay or refinance these loans, thus reducing their need for project-based assistance and raising the possibility that HUD could use some of the assistance currently obligated for these projects for other purposes.

A. How many Section 202 sponsors with direct loans have applied for prepayment or refinancing and how much in Section 8 project-based assistance does HUD estimate it might be able to

use as a result of these prepayments and refinancings and the resultant reduced need for the project-based assistance?

Disability Vouchers

20. The President's FY '02 budget proposes no funding for the current set aside of vouchers for non-elderly people with disabilities adversely affected by designation and public and assisted housing as "elderly only." Over the past five fiscal years, Congress has appropriated at least $40 million a year for this purpose. Why is the Administration proposing to zero-out this program given the continued efforts of housing authorities and assisted housing owners to change their tenant selection policies to disfavor people with disabilities?

McKinney-Vento Homeless Assistance Program

21. The Administration's budget proposes to maintain the current $100 million account for 1-year renewal of Shelter Plus Care rent subsidies. Congress created this separate account last year in order to ensure the stability of permanent supportive housing for homeless people with disabilities served by Shelter Plus Care. Does HUD anticipate $100 million being a sufficient amount to cover all Shelter Plus Care renewals expected in FY 2002?

22. The Shelter Plus Care renewal account that HUD established last year did not include renewal of expiring SHP (Supportive Housing Program) permanent housing rent subsidies. Bipartisan legislation introduced in the House this year (H.R. 888) would treat these SHP (Supportive Housing Program) permanent housing renewals the same as Shelter Plus Care and provide long-term stability for the formerly homeless, disabled tenants served by these programs by shifting renewals to the Housing Certificate Fund. Would the Administration support such an approach to ensure the long-term viability of the permanent housing component of the McKinney-Vento Homeless Assistance program?

Mental Health Action Plan

23. Secretary Martinez, in 1998 Congress directed HUD to develop a 'Mental Health Action Plan' to address the issues related to severe mental illness treatment needs of residents of public and multi-family assisted housing (Section 517 of P.L. 105-276).

    A. Can you please update the Subcommittee on HUD's progress in implementing this requirement?
    B. When do you anticipate HUD publishing the Mental Health Action Plan and best practices guideline for PHAs private owners of assisted housing?"

Mr. Bachus #1

Rehabilitation Insurance Programs

Question: I understand that last December, in a supplemental appropriation, $40 million in credit subsidy was appropriated for FHA multifamily insurance programs. These funds have not yet been released. These funds are critical to avoiding a shutdown in the multifamily new construction and substantial rehabilitation insurance programs. Without these funds, the available credit subsidy for FY 2001 will be committed literally in the next week or so. Some FHA lenders, including at least one in Birmingham, have already run out of credit subsidy and will be forced to shut down projects.

I understand that the money will be released if HUD and the President designate the request as an emergency as defined in the Balanced Budget and Emergency Deficit Control Act of 1965. Can you tell me what HUD is doing to address this crisis?

Answer: We do not plan on using the $40 million appropriated for emergency, because we are working with Congress to obtain new funding. In fact, new legislation for a supplemental appropriation of $40 million in credit subsidy is being introduced in Congress. In conjunction with an increase in premiums, this would allow the program to resume without the disruptions that have occurred in the past due to a shortage of credit subsidy.

Question: Is HUD willing to certify an emergency in order to release this money, which as I said earlier, has already been appropriated?

Answer: There is no need to request the emergency funding. See previous response.

Mr. LaFalce #1

Section 8

Question: Your FY 2002 HUD budget shows an increase in the Section 8 account of $4.079 billion compared to FY 2001 (excluding the $197 million for 33,700 incremental vouchers). [Note: this number is prior to your offset of $640 million of these increases through the policy change of reducing Section 8 reserves from 2 months to 1 month].

Of this $4.079 billion increase in Section 8 budget authority, it appears that a significant portion of this increase includes declining levels of recaptures and renewals of expiring long-term contracts, neither of which directly increase spending [outlays] by a single dollar.

In this light, please break down this $4.079 billion increase in FY 2002 Section 8 budget authority increases according to the following categories:

(1) Explicit rescission of FY 2001 recaptures not projected to recur in FY 2002 [note: both the FY 2001 VA-HUD bill and your budget show this as $ 1.829 billion],

(2) Additional projected recaptures of Section 8 funds in FY 2001 not projected to recur in FY 2002 - which were not displayed as rescissions, but simply used as internal offsets to reduce an otherwise higher level of Section 8 budget authority (you may need to consult with the Appropriations Committee to get this number for FY 2001),

(3) Multi-year Section 8 contracts expiring in FY 2002, which required zero budget authority in FY 2001, but require budget authority in FY 2002 for renewal,

(4) Section 8 budget authority increases which result from higher per tenant rental subsidy costs for existing Section 8 tenants,

(5) All remaining Section 8 budget authority increases (please give some indication of cause of such increases).

Answer: The FY 2002 HUD Budget shows an increase of $3.6 billion compared to the FY 2002 budget that includes the use of 1-month project reserves and $197 million in incremental vouchers. Excluding incremental vouchers and offset for renewals in FY 2002 and including them back in FY 2001 as your assumption indicates doesn't seem to be a valid comparison. However, the following is a break out of the increases and decreases in the Housing Certificate Fund budget as compared to the FY 2001 HUD discretionary budget:

	FY 2001 Enacted	FY 2002 Request	Difference 2001vs2002
Rescission	(1,829)	-	1,829
Recaptures for offsets	(1,304)	(640)	664
Section 8 Contract Renewal	14,247	15,748	1,501
Increases due to additional FY 2002 Contract Expirations			[897]
Increases due to higher per tenant rental subsidy			[603]
Family Self Sufficiency Coordinators	[45]	[46]	[1]
Tenant Protection	265	203	(62)
Contract Administrator	192	196	4
Incremental Vouchers	452	197	(255)
Jobs Plus	7		(7)
Transfer to Working Capital Fund	11	13	2
Non-Elderly Disabled	40	[40]	(40)
Grand Total	12,081	15,717	3,636
Adjustments per your question:			
Exclude Incremental Vouchers	...	(197)	(197)
Add back Project Reserves	...	640	640
Total	12,081	16,160	4,079

Mr. LaFalce #2

FHA Loan Guarantee

Question: Do you project that demand in FY 2002 for FHA loan guarantee programs like multi-family housing which require a credit subsidy will exceed available appropriated credit subsidy? If so, please explain your plans to suspend or curtail loan guarantees for such programs.

Answer: In order to seek a long-term solution to this problem, we are increasing the mortgage insurance premiums for this program. We anticipate this will minimize the need for credit subsidy, stabilize the FHA multi-family housing program, and make it more self-sufficient. By taking away the uncertainty about credit subsidy levels, these programs will be better able to respond to the housing demands of the market in the future.

Question: Last December, Congress appropriated $40 million in supplemental credit subsidy for FHA loan guarantee programs which require a credit subsidy. Do you plan to utilize this credit subsidy? If your answer is that you do not plan to use this because you do not consider this an emergency, please provide a justification why it is not. If your answer is that you do not plan to use this because you cannot comply with the Anti-deficiency Act, explain why not.

Answer: No, we do not plan to use this $40 million in supplemental credit subsidy. These funds require a Presidential designation of the amount as an "emergency." The Senate's own budget resolution for FY 2001 set forth the criteria for such a designation: sudden, quickly coming into being, not building up over time, unforeseen, unpredictable, and unanticipated. While these funds are needed, as is demonstrated by our own request, use of the emergency designation, under the Senate's own definition, is neither appropriate nor necessary. The Department is working with Congress to obtain a regular supplemental of $40 million for credit subsidy.

Question: Recent reports have found that millions of families, even families with an adult working full time, cannot afford to buy or rent a home. HUD reports many housing authorities where families return rental vouchers because they cannot find a decent place to rent. In these tight housing markets, how should HUD respond to requests for government stimulation of the market to create additional low- and moderate-income housing?

Answer: HUD is taking several actions to address the need for affordable housing in these tight housing markets. In FY 2002, The Department will focus in particular on improving Public Housing Agencies (PHAs) utilization of Section 8 vouchers. In addition, the Department has proposed a number of new or expanded initiatives to improve homeownership rate among low-income and minority families and in central cities. Since the biggest obstacle to homeownership is the inability to afford a down payment on a home, two of the initiatives--the American Dream Down-payment Fund and the Section 8 Homeownership program--focus directly on overwhelming this obstacle. The American Dream Down-payment fund is part of the HOME program. HOME is the largest Federal block grant to State and local governments designed exclusively to create affordable housing for low-income households. This program's flexibility empowers people and communities to design and implement strategies tailored to their own needs and priorities. The program's emphasis on consolidated planning expands and strengthens partnership among all levels of government and the private sector in the development of affordable housing. A third initiative--the Renewing the Dream Tax Credit--will subsidize the costs of homes that are rehabilitated or newly constructed for purchase by low-income households. Finally, the fourth initiative--the Hybrid Adjustable Rate Mortgage--will expand access to homeownership by reducing families mortgage payments in initial years of a mortgage.

Further, as always, FHA makes available multifamily housing mortgage insurance which is especially useful in assisting in the development of rental housing for low- and moderate-income families. The current streamlining of the FHA programs through the Multifamily Accelerated Processing (MAP) reform has made it easier for housing developers to utilize this form of relatively inexpensive credit enhancement. Development of multifamily rental projects for low- and moderate income households can also be financed through the utilization of the conversion of choice rental vouchers to project-based rental assistance in combination with FHA mortgage for the development of affordable housing for the elderly and for persons with disabilities. insurance programs. FHA is also a leading provider of mortgage insurance for first-time homebuyers, particularly minorities. Finally, the Millennial Housing Commission is charged with developing legislative and regulatory recommendations for Congress to improve the delivery of housing services to our neediest Americans and expand affordable housing opportunities.

Housing Affordability Crisis in America

Question: What would you think of a federal law that requires all agencies to consider the impact on housing Affordability when writing new regulations?

Answer: This proposal is best directed to the Office of Management and Budget because it has a potential to impose significant burden on other Departments and Agencies.

House Affordability in Crisis in America

Question: On April 19th, HUD announced that they were out of money for the credit subsidy for FHA multifamily insurance programs. As I understand it, this is in part due to a failure by the previous Administration to make the certifications necessary to obtain the release of $40 million in supplemental funds approved last December. The result is that hundreds of projects all over the country will not be built or will be substantially delayed. With the affordable housing needs critical and the stimulus provided by the construction of these projects, how can we work together to secure release of these funds?

Answer: As a measure of our strong support of the multifamily programs, we are working with Congress to obtain a regular supplemental appropriation of $40 million in credit subsidy. In conjunction with an increase in premiums, this would allow the program to resume without the disruptions that have occurred in the past due to a shortage of credit subsidy.

House Affordability Crisis in America

Question: The multifamily FHA loan limits have not been increased since 1992. I applaud the Secretary's announcement of support for increasing the multifamily FHA loan limits. Would you also support a proposal that would allow for adjustments in the loan limits to reflect changes up or down in inflation?

Answer: The Administration has not yet analyzed this issue. We intend to study it carefully, before formulating any recommendations. One technical concern is that there is much less information on the cost of multifamily projects than is routinely available for single family homes.

Public Housing Drug Elimination Program

Question: My concern is with the President's budget to eliminate the Public Housing Drug Elimination Program (PHDEP).

Though I share your concern for its record of ineffectiveness, I strongly support the essential purpose of PHEDP — to eliminate drug-related and violent crime and problems associated with it in and around the premises of Federally assisted low-income housing, and public and Indian housing developments.

PHDEP needs to provide PREVENTION funds for housing authorities that have a proven track record — those who had crime statistics in the past, but have succeeded in eradicating the criminal element and need to continue to work to keep it that way. It is cheaper to prevent than to cure, and better for families. It is also important to reward rather than penalize success.

Historically, local housing authorities applied for PHDEP funds when HUD issued a Notice of Fund Availability (NOFA) and housing authorities competed with each other for the funding available. This is no longer the case.

Instead, thanks to HUD, the Competitive Application process was changed on May 12, 1999 in favor of a formula finding program. This new criteria for PHDEP funds favors those agencies with severe crime and drug prevention problems in both public housing developments and in the community. As a result, housing authorities and communities that run good public housing programs and had established local crime and drug prevention programs before HUD developed PHDEP, and had received these funds in the past, are no longer eligible to receive funding under PHDEP.

Last year, I offered an amendment to H.R. 1776, the American Homeownership and Economic Opportunity Act, to address this problem. My amendment was accepted a part of the House-passed H.R. 1776 but, unfortunately, the bill ultimately died in the Senate.

My amendment would have modified the eligible local housing authority definition for the HUD PHDEP grants to include local housing authorities that can show evidence, through local efforts between the housing authority and police department, that they were able to eliminate drug and crime problems in public housing. Just because these communities have been successful does not mean they should be ineligible to receive funds. In no way would my amendment have taken money away from other communities. All it would have done is open up the eligibility requirements of to include successful housing authorities.

The City of Upland, California is a perfect example. Upland was one of many housing authorities faced with severe drug and crime problems in the past. However, they chose to take control and started a program in 1980 with the full support of the Upland Police Department. Today, Upland has one of the lowest crime rates in public housing in the country. But now the city is facing financial difficulties and it is becoming increasingly difficult for the police department to give this program the same level of services it has had in the past. Under HUD

PHDEP definitions, they are ineligible to receive funds to continue this successful program. The City of Upland does not stand atone. Every Member of Congress is faced with this same challenge in their districts.

This is a simple case of HUD rewarding housing authorities for doing a bad job and punishing those that have worked to reduce or eliminate the drug problem in their communities. Those successful communities should be able to continue their programs using PHDEP funds.

Assuming the Congress funds PHDEP, would you consider a regulatory change to PHDEP to modify the eligibility criteria to recognize local housing authorities and their partners who have successfully reduced crime in their jurisdictions but need continued funding to maintain anticrime programs to sustain reduced levels of crime?

Answer: The Department is proposing to eliminate PHDEP, in part, to consolidate programs where funds can be used for the same purpose. While the program continues to operate, the Department would insist that any proposed regulatory changes not make the program more difficult to administer by requiring a separate competition for funds, in addition to the current formula. The Department recognizes that there is always a need to review programs, to make process improvements, and to enhance the potential for more effective use of funds, in order to create a better living environment for residents of public housing. The proposed regulatory change, however, may not accomplished without further encumbering the program's administration.

HUD Inventories of Foreclosed FHA Homes

Question: I have another concern with HUD and the money the Department is losing by keeping large inventories of foreclosed Federal Housing Administration (FHA) houses. Just let me list off a few statistics, and let me know if these numbers reflect a strong agency performing well in a good economy:

- FHA mortgage insurance paid almost 77,000 claims worth about $6 billion in 1998. That cost is passed onto the consumer through higher premiums.
- In 1997, single family homes stayed in the Federal inventory for an average of *5.4* months. In 1998, the average time in inventory increased to 6.6 months, and last I checked it was still increasing.
- In 1996, HUD had 25,000 single family properties in inventory. In 1998, the inventory had increased to 40,000, and as of June 30, 1999 HLTD had 50,000 properties in inventory.
- The HUD single-family inventory was valued at $1.9 billion in 1996. It increased in value to $3.3 billion in 1998.
- *Fifteen percent* of HUD's property is held in inventory more than 12 months. That is compared to the industry average of between 2 percent and 3 percent in inventory more than 12 months.
- In 1996, average loss per property was $28,000. In 1998, the average loss had increased to $31,700 (12 percent increase), and as of June 30, 1999 the average loss number was $32,470. If you multiply the 50,000 properties in inventory by the average loss of $32,470, that is a loss of more than $1.6 billion.

This is not just a theoretical problem for my district and many districts throughout the country. When I last checked, the City of Pomona had in excess of two hundred properties in their HUD inventory. Local officials are frustrated with the excessive number of boarded-up properties in their neighborhoods.

This is a prime example of what happens when you put the Federal government on "autopilot." Mr. Secretary, can you please share with us what the new Administration and HUD now plan to do to end this abuse and waste of taxpayer dollars?

Answer: FHA is doing a number of things to reduce inventories and time in inventory of its owned properties. To take your items in order:

1. FHA loans encourage homeownership in populations that are not served or are underserved by conventional mortgage lending. In such populations, claims higher than in the conventional mortgage industry should be expected. Also, FHA does not stop lending in localities with economic problems as many conventional lenders

do. At September 30, 2000, FHA single family programs insured nearly 6.8 million loans with amortized values of over $490 billion, so claims of 77,000 give a claim rate of slightly over 1 percent. Premium rates established in the 1990s have been reduced to borrowers since January 1, 2001, and FHA is examining ways to reduce payments or provide return of premiums to borrowers previous to that date.

2. FHA time in inventory of properties sold has increased because FHA and the FHA Management and Marketing (M&M) contractors have placed a priority on disposing of properties in inventory the longest. Many of these have been in inventory a long time because they cannot be sold as housing. The $1 sales program is expected to help with this kind of properties. Once long-held properties are sold, the time in inventory is expected to drop. The 12-month rolling average of days in inventory of properties sold has dropped from 222 days in September 2000 to 177 days in April 2001.

3. As of April 30, 2001, FHA had 31,000 single family properties in inventory, a major decrease from the September 30, 1999 inventory of 50,000.

4. As of April 30, 2001, the inventory of single family properties was valued at $2.7 billion (this is the claim cost of these properties, that is the unpaid principal balance and costs paid to lenders); on September 30, 1999, the inventory was valued at $4.2 billion. Again, major progress has been made in FY 2000.

5. Through May 2001, 4,056 homes, which comprise 13 percent of the HUD real estate owned (REO) inventory, had been held in inventory more than 12 months. That is a reduction from the 7,280 homes held over 12 months as of May 2000, which were 18 percent of the REO inventory then. Of the loans in portfolio, more than 12 months, 60 percent are currently under sales contract. Since May 2000, while the total inventory of FHA single family real estate owned (REO) has dropped 20 percent, the inventory over 12 months has dropped 44 percent. With so many of these under sales contracts we anticipated a further decrease in the percent of inventory over 12 months. The 2-3 percent of properties on the market over 12 months appear to be for the total sales in the conventional market; the total conventional market of sale properties is not an appropriate comparison to the distressed properties in the FHA REO portfolio.

6. Over the last 5 years, the loss rates on HUD REO inventory were as follows:

FY 1997:	42.4%
FY 1998:	40.4%
FY 1999:	36.4%
FY 2000:	36.9%
FYTD 2001:	34.0%

The slight increase in the FY 2000 loss rate relates to the implementation of the $1 home program and the sale of aged inventory (property in inventory over 12 months) out of the FY portfolio. FHA has now reduced its portfolio to its lowest level in 5 years. In FY 2001, FHA is realizing its highest recovery rate in 5 years.

FHA will continue to try to operate the sales program with efficiency and economy, and will continue discounted sales to non-profit and local authorities. Many localities are using the FHA $1 sales program to rehabilitate or demolish eyesores which have been on the market more than 6 months.

Public Housing Drug Elimination

Question: In your testimony, you indicated that you have found instances of mismanagement and inappropriate use of funds in the Public Housing Drug Elimination Program. You use this evidence as the basis for your termination of the entire program. Would you please detail the specific instances you are referring to as well as listing all the instances of such inappropriate uses of funds with a particular emphasis on the period from 1997 to 2000? Please list the nature of the mismanagement or inappropriate use of funds, the location, and the source of the data. Please clarify whether HUD had approved the activity in advance. Please supply any audit findings on the program from 1997- 2000. Please quantify what proportion of funds for the overall program these instances represent. Please detail what internal actions HUD has taken to address the problem.

Answer: Attached is a listing of the IG reports from 1997-2001. Listing of the nature of mismanagement or inappropriate use of funds for each Housing Authority is also provided for your information as well as a copy of a recent article published in The Baltimore Sun.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF PUBLIC AND INDIAN HOUSING
PUBLIC AND INDIAN HOUSING DRUG ELIMINATION PROGRAM
PROGRAM SPECIFIC AUDITS

(The following is a listing of Audits as conducted by the Office of the Inspector General [OIG] on the PHDEP for the period from 1997 to 2000.)

- Housing Authority of the City of Sarasota -Sarasota, Florida (Case # 98-AT-202-1007)
- Housing Authority of the City of Pittsburgh, Pittsburgh, Pennsylvania (Case # 00-PH-201-1001)
- Metropolitan-Dade Housing Authority, Miami, Florida (Case # 98-AT-202-1008)
- Municipal Housing Authority of the City of Utica, Utica, New York (Case #98-NY-209-1803)
- Buffalo Municipal Housing Authority, Buffalo, New York (Case # 99-NY-209-1001)
- Luzerne County Housing Authority, Kingston, Pennsylvania (Case #97-OH-202-1006)
- New Bedford Housing Authority, New Bedford, Massachusetts (Case #97-BO-209-1802)
- Holyoke Housing Authority, Holyoke, Massachusetts (Case #98-BO-209-1005)
- City of Woonsocket Housing Authority, Woonsocket, Rhode Island (Case #98-BO-209-1003)
- New Haven Connecticut Public Housing Authority, New Haven, CT (Case #97-BO-101-0804)
- Housing Authority of the City of Meridian, Meridian, Mississippi (Case #00-AT-204-1002)
- Peoria Housing Authority, Peoria, Illinois (Case #98-CH-209-1001)
- Housing Authority of the City of San Antonio, San Antonio, Texas (Case #98-FW-202-1005)
- Housing Authority of St. James Parish, Lutcher, Louisiana (Case #99-FW-202-1002)
- King County Housing Authority, Seattle, Washington (Case #98-SE-204-1003)
- Multi-District Audit (Case #99-BO-101-0001)
- Fall River Housing Authority, Fall River, Massachusetts (Case #97-BO-209-1803)
- Public Housing Drug Elimination Technical Assistance Program (Case #2001-AO-0001)
- Drug Elimination Funds Used for Creative Wellness Program (Case #2001-AO-0003)

The following is a recent newspaper article critical of the PHDEP:

- U.S. audit critical of anti-drug spending; HUD used $1.1 million for New Age program; By Gail Gibson, The Sun, Baltimore, MD, Saturday, September 8, 2001

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THE SUN
Baltimore, MD

U.S. audit critical of anti-drug spending

HUD used $1.1 million for New Age program

By GAIL GIBSON
SUN STAFF

Taxpayer money that was supposed to fight drugs and crime in the nation's public housing instead went to a New Age program that helped low-income tenants determine their personality type and lower stress using aromatherapy, gemstones and meditation, a federal audit found.

The Creative Wellness Program received about $1.1 million from an anti-drug program at the U.S. Department of Housing and Urban Development between 1998 and 2000 to operate at public housing sites in seven cities, including Baltimore.

In a sharply critical report made public this week, the HUD Inspector General said a senior HUD employee misused her position by awarding the contract to a longtime acquaintance without seeking other bids.

Investigators also said there was little evidence that the program, which professed to used a physical assessment of the body's glands to identify each of 14 different personality types — all named for Greek and Roman gods and goddesses — had any ef- [See Audit, 10a]

fect on the substance abuse and crime problems that have long afflicted America's public housing.

"In our opinion, this represents an excessive and ineffective use of public housing drug elimination funds with no measurable benefits," the report said.

HUD officials responded to the findings by shutting down the wellness program and by transferring Gloria J. Cousar, the former deputy assistant secretary for public and assisted housing delivery, to a job where she no longer has authority to award grant money.

"As soon as we learned this program exists, we killed it," said Nancy L. Segerdahl, a HUD spokeswoman who said officials suspended the program in April, soon after they were alerted to the inspector general's investigation.

In addition to Baltimore, the program was used at public housing in six other cities: Washington; Chicago; Fairfax, Va.; Charlotte, N.C.; St. Paul, Minn.; and Albuquerque, N.M.

"This is clearly not what HUD's mission is, and this is not the kind of program we should be administering," Segerdahl said.

Officials also have taken steps to recover about $98,110 that the program's operators improperly collected from HUD or spent on ineligible items. Those items included a $9,500 copier and an $18,586 van purchased by the National Institute for Medical Options, a nonprofit organization based in Herndon, Va.

Reached yesterday, Cousar referred all questions about the program and the audit report to HUD's public affairs office, saying she regretted that she could not talk about it.

Cousar spoke at length about the program's benefits in an October 2000 health article in *The Washington Post*. She said the program helped people gain more control over their lives and reject drug use and crime.

"People become involved in drugs because they have given up. They think poorly of themselves," Cousar said. The program, she added, "helps empower people to act on healthier lifestyles. If that means getting their weight down and functioning better so that they get a job and not wake up feeling depressed, that will help them keep up with the rent and feel more successful."

This week's inspector general report said Cousar had a clear conflict of interest in promoting the program and that her actions in securing funding for it "went far beyond what a prudent government official should have done."

In her position as a deputy assistant secretary, Cousar had sole authority to approve program grants of up to $1 million. Responding to the audit, HUD officials now require a second approval for any grant of more than $250,000.

According to the report, Cousar said she did not seek other bids for the wellness program because she didn't think anyone else would be willing to work in dangerous public housing facilities.

But the report said Cousar has a long-standing relationship with Michelle E. Lousson, president of the National Institute for Medical Options — both are ministers affiliated with the Community Center for Wholistic Healing in Herndon, Va., and they have other professional ties reaching back to the early 1990s, the report said.

Lousson did not respond to

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messages left yesterday at her Herndon offices. In the newspaper article last fall, she dismissed skeptics of her creative wellness program.

"I really think this is worthy and deserving of respect," Lousson said. "We'll be changing a lot of minds."

The wellness program claimed to reduce stress, boost self-esteem and improve overall health among low-income public housing residents by using various alternative therapies, according to fliers and literature that promoted it.

During evaluation sessions at public housing clinics, Lousson or one of her trainers would begin by asking each participant, "May I touch you?" After poking various glands in the neck, abdomen and groin area, the trainer would determine the participant's personality, picking from one of 14 types, each named for one of the ancient gods — Apollo, for instance, or Eros, the report said. For each personality type, participants were told what would be the best diet and exercise regimen to follow. They also were counseled on what colors would be best to wear, and how gemstones and aromatherapy could be used to relieve stress.

Participants would often head back to their apartments with a candle or package of incense.

"For the most part, residents liked the program," the auditor's report noted. "But they did not relate the training they received as having any direct correlation with substance abuse or violent crime."

The Department of Health and Human Services gave some money to the program in its first year, but decided against helping HUD fund it for a second year after its own independent review showed scant benefits.

"Although the program probably does no harm and customers have fun and enjoy heightened self-esteem, we are concerned that many of the tools used [gemstones, aromatherapy] have no demonstrated efficacy in clinical health improvement," that independent review noted.

The review also raised a more practical concern. Burning candles and incense in public housing developments, the report said, created a potential danger.

HA City of Sarasota, Fl

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

HA City of Pittsburgh, PA

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

Metropolitan-Dade Housing Authority, Miami, FL

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

Municipal Housing Authority of the City of Utica, NY

- No reportable deficiencies
- The PHA has developed, implemented, and administered the PHDEP grant in an economical, efficient and effective manner. PHA made adequate efforts in reducing drug-related crime and the PHA residents are satisfied with the results of the program.

Buffalo Municipal Housing Authority, Buffalo, NY

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

Luzerne County Housing Authority, Kingston, PA

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

New Bedford Housing Authority, New Bedford, MA

- No findings were made.
- The PHA has developed, implemented, and administrated its PHDEP grants in an economical, effective, and efficient manner.

Holyoke Housing Authority, Holyoke, MA

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

City of Woonsocket Housing Authority, Woonsocket, RI

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

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

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

Housing Authority of the City of Meridian, Meridian, MS

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

Peoria Housing Authority, Peoria, IL

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

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

- Authority needs to evaluate grant effectiveness and improve grant administration
- Authority needs to improve it's fiscal administration of the program

Housing Authority of St. James Parish, Lutcher, Louisiana

- Authority has not properly managed its grant program

King County Housing Authority, Seattle, WA

- No recommendations.
- Housing Authority implemented the Drug Elimination Program with satisfactory outcomes/benefits in accordance with its plans.

Multi-District Audit

- Grantees need to ensure better administration and accountability of public housing drug elimination funds

- HUD needs reliable data to measure the effectiveness of the Public Housing Drug Elimination Program.

Fall River Housing Authority, Fall River, MA

- No findings.
- The Fall River Housing Authority has developed, implemented, and administered its PHDEP grants in an economical, effective, and efficient manner.

Public Housing Drug Elimination Technical Assistance Program

- Integrity of the consultant referral process has been compromised

Drug Elimination Funds Used for Creative Wellness Program

- Drug Elimination funds were used for a wellness program
- PIH did not effectively manage NIMO's Cooperative Agreement

Section 8

Question: In your testimony, you indicated that you feel that many public housing authorities are underutilizating Section 8 vouchers due to mismanagement. Could you please cite the PHAs with low utilization rates that are a result of mismanagement? Could you detail their utilization rates along with HUD's conclusions regarding the mismanagement that resulted in the underutilization?

Answer: See attached for the utilization rates for each Housing Authority.

There are two main causes of Section 8 underutilization: inexpert management by PHAs and difficult market conditions. Although it is more difficult to achieve high utilization rates in difficult market conditions, well-managed PHAs can generally overcome these conditions to ensure high utilization rates. HUD has taken a number of steps to improve utlization rates in recent years and plans further steps in FY 2002. These include:

- Incentives for high performing PHAs;
- Sanctions for PHAs that do not have high utilization rates; and
- Steps to make vouchers easier to use.

Energy Costs

Question: In your testimony, you cited a Department of Energy analysis that found that energy costs are projected to decrease during the next year(s). Could you please supply a copy of the relevant portion of that report to the Subcommittee?

Answer: See attached table

ENERGY PRICES

Calendar Quarter	Oil price per barrel ($) Refiners' average cost (RAC) Imported	Domestic	Average	Coal* ($/sh. ton)	Natural Gas** ($/mcf)	Gas & Oil Price Index (CY1996=100)
1999 Q1	10.86	11.33	11.04	17.40	1.74	83.52
1999 Q2	15.43	16.01	15.65	17.50	2.04	94.81
1999 Q3	19.75	19.81	19.77	17.10	2.28	99.91
1999 Q4	23.04	23.40	23.19	16.90	2.26	104.39
2000 Q1	26.79	27.61	27.11	16.75	2.26	117.85
2000 Q2	26.52	27.34	26.85	16.91	3.06	123.05
2000 Q3	29.11	30.41	29.61	16.61	3.87	123.83
2000 Q4	28.97	30.65	29.66	16.71	5.61	124.04
2001 Q1	27.31	28.10	27.64	16.80	6.82	115.59
2001 Q2	25.02	25.81	25.35	16.89	4.82	106.01
2001 Q3	23.75	24.34	24.08	16.98	4.38	100.70
2001 Q4	22.82	23.61	23.15	17.06	4.89	96.31
2002 Q1	22.11	22.90	22.44	17.15	5.20	93.84
2002 Q2	21.49	22.28	21.82	17.24	4.34	91.25
2002 Q3	20.97	21.76	21.30	17.33	4.15	89.08
2002 Q4	20.57	21.36	20.90	17.42	4.59	87.40
2003 Q1	20.68	21.47	21.01	17.51	4.61	87.86
2003 Q2	20.78	21.57	21.11	17.60	4.64	88.28
2003 Q3	20.89	21.68	21.22	17.70	4.66	88.74
2003 Q4	21.00	21.79	21.33	17.79	4.69	89.20
2004 Q1	21.11	21.90	21.44	17.88	4.71	89.66
2004 Q2	21.22	22.01	21.55	17.97	4.74	90.12
2004 Q3	21.33	22.12	21.66	18.07	4.76	90.58
2004 Q4	21.44	22.23	21.77	18.16	4.78	91.04
2005 Q1	21.55	22.34	21.88	18.26	4.81	91.50
2005 Q2	21.67	22.46	22.00	18.35	4.83	92.00
2005 Q3	21.78	22.57	22.11	18.45	4.86	92.46
2005 Q4	21.89	22.68	22.22	18.54	4.89	92.92
2006 Q1	22.01	22.80	22.34	18.64	4.91	93.43
2006 Q2	22.12	22.91	22.45	18.74	4.94	93.89
2006 Q3	22.24	23.03	22.57	18.83	4.96	94.39
2006 Q4	22.35	23.14	22.68	18.93	4.99	94.85
2007 Q1	22.47	23.26	22.80	19.03	5.01	95.35
2007 Q2	22.59	23.38	22.92	19.13	5.04	95.85
2007 Q3	22.70	23.49	23.03	19.23	5.07	96.31
2007 Q4	22.82	23.61	23.15	19.33	5.09	96.81
2008 Q1	22.94	23.73	23.27	19.43	5.12	97.32
2008 Q2	23.06	23.85	23.39	19.53	5.14	97.82
2008 Q3	23.18	23.97	23.51	19.63	5.17	98.32
2008 Q4	23.30	24.09	23.63	19.73	5.20	98.82
2009 Q1	23.42	24.21	23.75	19.84	5.23	99.32
2009 Q2	23.55	24.34	23.88	19.94	5.25	99.87
2009 Q3	23.67	24.46	24.00	20.04	5.28	100.37
2009 Q4	23.79	24.58	24.12	20.15	5.31	100.87
2010 Q1	23.92	24.71	24.25	20.26	5.34	101.41
2010 Q2	24.04	24.83	24.37	20.36	5.36	101.92
2010 Q3	24.16	24.95	24.49	20.47	5.39	102.42
2010 Q4	24.29	25.08	24.62	20.58	5.42	102.96
2011 Q1	24.42	25.21	24.75	20.68	5.45	103.51
2011 Q2	24.54	25.33	24.87	20.79	5.48	104.01
2011 Q3	24.67	25.46	25.00	20.90	5.51	104.55
2011 Q4	24.80	25.59	25.13	21.01	5.54	105.09

*Average mine price (bituminous coal).

**Average wellhead price for imported, inter- and intra-State natural gas.

Disabled Housing

Question: In HUD's most recent Worst Case Housing Needs study, issued in January 2001, the disabled were one of the few groups whose needs did *not* fall. In fact, the report states:... "three-fifths(60 percent) of the unassisted disabled have worst case problems, a *higher rate than that of any other household type...*" Could you please provide HUD's rationale for eliminating $40 million in funding for 8,000 incremental vouchers for the disabled? What steps does HUD plan to take to ameliorate the housing needs among the disabled this year?

Answer: The Department supports the use of vouchers to assist non-elderly persons with disabilities who may be excluded from housing opportunities as a result of local PHAs and housing providers designating public and assisted housing as "elderly only." HUD's FY 2002 budget does allow and encourage PHAs to spend up to $40 million in Section 8 assistance for this purpose. Further, preference to disabled families is one of the criteria used by HUD in selecting applications for funding. Fifteen out of a hundred points are assigned to the PHAs that indicates at least 15 percent or more of the vouchers they are requesting under Fair Share Incremental Vouchers NOFA will be used to house disabled families.

As in the past, HUD also plans to use up to 25 percent of funding under the Section 811 Supportive Housing for the Disabled program to provide disabled persons with vouchers to ensure that they have mainstream housing opportunities.

HUD Capital Fund

Question: Mr. Secretary, I am deeply concerned by the recent Administration proposal to cut $700 million from the HUD Capital Fund program. In my district, the San Antonio Housing Authority (SAHA) has calculated that it currently has approximately $175 million in capital improvements it needs to make over the next 10 years. Additionally, according to a recent HLTD analysis, there is a $22 billion backlog in capital repairs nationally. The President's budget justifies the reduction in Capital Fund spending on the grounds that there is a backlog in unspent funds. But, as you are well aware, unspent does not mean unobligated, and in fact much of this backlog in spending is already committed to ongoing projects. SAHA, for example, estimates that 98 percent of its current capital fund is already obligated. Mr. Secretary exactly why does your Department recommend a 25 percent cut in the Capital Fund program? How will the Department ensure that the current backlog in capital fund improvements is not exacerbated by this cut?

Answer: The funding level proposed in the FY 2002 Budget for the Capital Program at $2.3 billion was arrived at with two objectives in mind. First, the level should not exacerbate the backlog of needs. Second, the request should contribute to a sensible level of funding given the current balances and overall capacity of PHAs to utilize funds in a cost effective and timely manner. The first objective was met by requesting a level that exceeded the recent study of the public housing stock that estimated that annually needs accrue at a level of about $2.1 billion. The decision to request $2.3 billion was made balancing other overall budget needs with what PHAs currently have in the pipeline of funds to utilize and the Department's concerns for the PHAs' capacity to use the balances they have on-hand.

Drug Elimination

Question: Mr. Secretary, the Drug Elimination Program has been a tremendous success in my district. In San Antonio, under this program almost 30 off-duty police officers have been hired to enforce security at public housing sites. This has resulted in a significant decrease in crime in San Antonio's public housing complexes. Mr. Secretary, how does your Department justify the elimination of this program? Additionally, what steps does your Department plan to take to ensure security in public housing areas?

Answer: It is not the intention of this Administration to eliminate crime-fighting programs in public housing developments. In fact, the Administration's FY 2002 Budget includes over $18 billion for agencies tasked with law enforcement and drug abuse treatment. Rather, the rationale behind the elimination of the Public Housing Drug Elimination Program in the President's FY 2002 Blueprint and Budget is the recognition that other agencies are better suited to this task since their primary mission is the prevention of criminal and drug activity, while HUD's primary mission is the management and oversight of housing programs. Accordingly, a more efficient use of the taxpayers' dollars would be to fund crime fighting activities through the agencies tasked with the prevention of criminal and drug activity, while the HUD budget dollars and efforts should be focused on its primary mission of providing adequate and safe housing to all Americans. This is not to say that the Department intends to ignore the crime statistics in public housing developments. On the contrary, the Department intends to undertake other efforts to ensure the continued elimination of drug and criminal activity in public housing developments, to include, but not limited to: pursuing partnering efforts with other agencies whose core missions include law enforcement and drug abuse treatment, continuing to encourage local housing authorities to develop partnerships with local police departments and to support their efforts to implement effective screening and evictions policies, and forming partnerships with faith-based organizations who provide treatment and counseling. Such initiatives will result in a more concentrated utilization of funds and a potential opportunity for more effective and coordinated results.

Public Housing Operating Subsidy

Question: Several of us joined Congressman Barney Frank in writing to appropriators for a supplemental appropriation for additional funding for the Public Housing Operating Subsidy to cover significant and unexpected increases in utility costs being experienced by public housing authorities. This is particularly critical for those of us from California and other Western states experiencing an energy crisis. Are you supportive of this initiative — approximately $362 million to cover increased utility costs?

Answer: The Department does not support supplemental appropriations for additional funding to cover increased utility costs. Further, the Department estimates that its FY 2002 Public Housing Operating Fund request will provide full funding for PHAs under the operating subsidy formula.

HOME

Question: As you know, in the Housing and Community Development Act of 1992, Congress defined the community land trust model and recognized their significance in developing and preserving affordable housing. This legislation also made HOME funds available for a range of technical assistance services to community land trusts (CLTs). As CLTs are becoming widely viewed as an ideal complement to Smart Growth strategies and a critical tool in preventing displacement of low-income people in gentrifying communities, technical assistance to CLTs is increasingly important to ensure their success. HUD's contract with the Institute for Community Economics, the national intermediary that developed the CLT model and supports community land trusts across the country, is expiring. Will CLT's continue to be a priority in this administration and do you plan to renew this contract? We'd like a commitment from you to make sure this valuable technical assistance continues to be available across the country.

Answer: Technical assistance to CLTs is an eligible activity under the Community Housing Development Organizations (CHDO) technical assistance funding, and $7.6 million is being competed for by these organizations in FY 2001. The grantees are either experts in CLTs or must access an expert for the technical assistance they provide.

The Institute for Community Economics was awarded a contract in FY 1998, and $381 thousand remains of their contract. They didn't apply in FY 1999 and were unsuccessful in their FY 2000 application. They have applied for FY 2001 funds. Awards for the FY 2001 funds are expected to be made late in FY 2001 or early in FY 2002.

Overall Budget

Question: I noticed that the President, in his HUD budget proposal, revised last year's HUD budget number down. In fact, the President's budget proposal says that Congress spent $4 billion less than what we thought we spent. I would like to understand the reasoning behind that. Did we provide fewer Section 8 vouchers than we thought we had? Did fewer people receive homeownership counseling? Did people get less money in downpayment assistance? Was there less of any service provided or fewer people served? Is the reduction just on paper?

Answer: The $4 billion reduction in HUD's estimates for FY 2001 is generally attributable to two changes. First, FHA's Mutual Mortgage Insurance Fund receipts were reclassified from an offset to mandatory spending to an offset in discretionary spending. This lowered the scored discretionary budget authority by $2.2 billion. Second, a $1.8 billion rescission that was not anticipated in HUD's original FY 2001 estimates was scored in 2001 discretionary budget from $32 billion to $28 billion.

These changes had no impact on HUD's proposed program activities since the first was merely a change in presentation and the second was a rescission of funds recaptured from expiring long-term contracts or unutilized funds from prior years.

Incremental Vouchers

Question: I noted in your testimony that you suggest we should issue fewer new vouchers than in years past because we didn't use all the new vouchers previously issued. I know we can't use every voucher. There isn't enough housing to use every voucher. This budget, however, reduces new vouchers by 50 percent. Did we only use 50 percent of the vouchers issued nationwide?

Answer: The distribution of the FY 2001 enacted vouchers has not been completed. However, we do expect to use more than 50 percent. The decision to request fewer vouchers was based on other factors. One factor, for example, concerns the ability to properly manage the voucher program-especially in difficult market conditions. However, underutilization of 79,000 Incremental Vouchers enacted in FY 2001 by 50 percent is not a factor for the decision. There are a number of factors that limited the number of incremental vouchers in FY 2002 budget, for example, the Department is concerned with the inexpert management by PHAs and difficult market conditions. HUD has taken a number of actions to improve vouchers utilization rates and over the course of next year, the Department is planning to complete a thorough review of the program and have recommendations for changes and a new estimate of the number of vouchers that can be effectively used each year.

New Housing Production

Question: In your testimony, you seem to put most of the onus of low utilization rates on mismanagement. Before a family can use a voucher, however, they've got to find an apartment. In Chicago, according to a 1999 study done by the University of Illinois, we are short *155,000* units of affordable housing. We are at-risk of losing over 16,000 more units of project-based Section 8 affordable housing. In Chicago, we think we have to build more housing if we are going to raise our utilization rate above its current 85 percent, which I understand is one of the best in the nation. How do you propose fixing our problems in Chicago without building more housing?

Answer: The goal of my Department along with the Bush Administration's goal in dealing with housing affordability and availability is to enhance America's strong record on home ownership (especially to minority households), better utilize Section 8 housing vouchers and pursue ways to increase availability of rental housing. The Department will continue to study and evaluate its programs to ensure that the scarcity of affordable housing in many communities and the soaring rental prices in or strong economy can be assisted with HUD's core programs.

In addition to the Housing Vouchers program, the Department believes that its core programs of Section 202 Supportive Housing for the Elderly, Section 811 Supportive Housing for the Disabled, HOPE VI Urban Revitalization grants, Multifamily FHA Mortgage Insurance, the HOME Investment Partnerships program, along with the Low-Income Housing Tax Credit Program address many of our communities housing availability needs.

HOME is the largest Federal block grant to State and local governments designed exclusively to create affordable housing for low-income households. Each year it allocates more than $1 billion among the States and hundreds of localities nationwide. This program's flexibility empowers people and communities to design and implement strategies tailored to their own needs and priorities. The program's emphasis on consolidated planning expands and strengthens partnership among all levels of government and the private sector in the development of affordable housing.

The Low-Income Housing Tax Credit will generate over $4.5 billion in grant-equivalent subsidies (net equity) annually, starting in 2002. This is based on:

1. Housing Credit cap allocations of $493 million nationwide, reflecting the 40 percent increase (2002) and the new small state minimum allocation of $2 million.

2. Pricing at 80 cents (the total would drop to about $4.2 billion with 75 cents pricing).

3. No increase in private activity bond credits, which currently generate a rough estimate of $600 million in net equity. Plus, the caps will be indexed for inflation stating in 2003.

The Millennial Housing Commission, which was announced September 19, 2000, is charged with developing legislative and regulatory recommendations for Congress to improve the delivery of housing services to our neediest Americans and expand affordable housing opportunities. The Congress and the Administration should await the completion of the Commission. In the meantime, the Congress and the Administration should work with the Commission on what is the best approach to deal with housing availability issues.

The Department realizes that in certain parts of our country new housing production may be necessary to address housing shortages where housing vouchers cannot be utilized. The Department believes that its core programs of housing vouchers, section 202 elderly and section 811 supportive housing for the disabled, HOPE VI Urban Revitalization grants, Multifamily FHA Mortgage Insurance, the HOME Investment partnerships Program along with the Low Income Housing Tax Credit program address many of our communities housing availability needs.

Evictions

Question: In Illinois, I have been receiving an increasing number of reports about tenants in public housing being evicted because they have criminal records. People who have long ago paid their dues to society and who are otherwise living productive lives, are being denied access to an affordable place to live. Do you think we should reconsider this policy?

Answer: To be evicted from public housing, a tenant needs to have violated the lease. That means that unless the tenant committed fraud in the application process or did something during occupancy of the public housing unit would be a cause for eviction and not something that happened before that time. With respect to families seeking admission to public housing, HUD asks public housing authorities to screen out families who would be a serious threat to others in their development, but provides discretion regarding many of the details of these screening policies. That approach should not be reconsidered, in the interest of the vast majority of public housing residents who simple want to live peaceful and productive lives.

Community-Based Organizations

Question: It is my understanding that HUD is looking to play a primary role in the promotion and expansion of President Bush's faith based initiatives. While I have my concerns about this program, I am a strong supporter of incorporating CBOs into the process of expanding the stock of affordable housing. However, in New York City we are experiencing a serious problem with the 203K program, which involved bank foreclosures on over 500 of the 203K properties. CBOs, many of which were from other parts of the country, that HUD chose over our local organizations to take part in this program, were inappropriately qualified for larger mortgages than they can afford to pay off. This put tenants at risk and damaged many well-intentioned CBOs. Given the problems that HUD has experienced in recent years effectively implementing and overseeing its existing programs which rely on community-based organizations, how do you propose to expand this role without exacerbating the problems?

Answer: The Department has had considerable positive experience with CBOs, especially in the Homeless, HOME and CDBG programs. The experience you describe with the Section 203K program is unique. The Faith-Based Initiative is intended to make a multiple of existing grant programs more accessible to Faith-Based organizations' participation. Currently, there are barriers for Faith-Based organizations and CBO's limiting their participation in HUD programs, so the faith-based initiative will try to find equitable ways to remove these obstacles. At the same time, HUD's programs must be run smoothly and efficiently with appropriate program requirements and oversight.

203K Program

Question: HUD's NY Office has been actively involved in making sure that none of the tenants of the 203K properties which have been foreclosed on are displaced. I have appreciated their work on behalf of these residents. However, I would like to know what steps your agency is taking to ensure that these problems do not repeat themselves in future properties brought into this program?

Answer: To address unacceptable claim and default rates for the program and to make certain that properties are not over-improved, FHA is recommending the changes listed below. FHA will implement these changes via a proposed rule.

- Limit the 203 (k) program to single unit properties.
- Restrict the amount of rehabilitation for any property to 20 percent of the maximum mortgage limit in high cost areas, currently $47,850 (20 percent of $239,250).

In addition, to address the accumulation of properties by nonprofit agencies, the unacceptable claim and default rates, and to make certain that nonprofit agencies have the experience necessary to properly manage an effective affordable housing program, FHA is recommending the following:

- Limit the number of FHA insured mortgage loans of any type that a nonprofit may obtain to ten outstanding at one time.
- Limit the nonprofit agency from obtaining FHA insured financing to properties with more than one living unit.
- Provide that nonprofit agencies must have evidence of tax exempt status for 2 years.

FHA has determined that it is critical to implement these changes immediately to prevent further losses to the FHA fund and to address the experience levels of non-profit agencies. For these reasons, FHA will issue these changes under an Interim Rule.

Question: The need for the Section 8 vouchers is so overwhelming that the New York City Housing Authority closed the waiting list for this program in December of 1994. No other applications have been accepted for 76 months. Yet despite this drastic measure, as of March 1~ of this year, there were still over 156,000 families on the Section 8 waiting list in New York City. Under the President's Budget, it would take over four and a half years just to eliminate the six year old back-log in NYC. I am interested in knowing on what statistics the Administration based its decision that we were in need of less than half the number of incremental vouchers appropriated last year?

Answer: There are a number of factors that limited the number of incremental vouchers in FY 2002 Budget. The Department is not only concerned with the slow pace of getting incremental vouchers out to PHAs but also the length of time it takes PHAs to actually put the vouchers to use. In addition, the FY 2001 Appropriations Act requires that only those PHAs that are currently using their existing vouchers can get more incremental vouchers. In the past, the vouchers were distributed to many PHAs that were not using vouchers effectively.

Further, in addition to the Housing Vouchers program, the Department believes that its core programs of Section 202 Supportive Housing for the Elderly, Section 811 Supportive Housing for the Disabled, HOPE VI Urban Revitalization grants, Multifamily FHA Mortgage Insurance, the HOME Investment Partnerships program along with the Low-Income Housing Tax Credit Program address many of our communities' housing availability needs.

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3. No increase in private activity bond credits, which currently generate a rough estimate of $600 million in net equity. Plus, the caps will be indexed for inflation starting in 2003.

Furthermore, Congress set up the Millennial Housing Commission which is charged with developing legislative and regulatory recommendations for improving the delivery of housing services to our neediest Americans and expanding affordable housing opportunities. The Congress and the Administration should await the completion of the Commission and its recommendations. In the meantime, the Congress and the Administration should work with the Commission on what is the best approach to deal with housing availability issues.

Section 8

Question: It is my understanding that these vouchers will be distributed to state and local housing agencies that have demonstrated an ability to effectively use their existing vouchers. A need for these vouchers clearly exists in my district, and in many other urban centers around the nation. Given this continuing demand, would it not make more sense to revisit the formula by which these vouchers are distributed rather than cut the number funded?

Answer: The Department's current formula already determines the allocation based on a fair share factor which is based on the relative need for low-income housing assistance in each area to the nation as a whole as specified in Section 213(d) of the Housing Community Development Act of 1974, as amended, and in 24 CFR 791-402. This year the Department made a change to distribute the vouchers only to state and local agencies that have used the existing vouchers effectively.

Section 8 Reserves

Question: As you have stated, NYC has had greater success in utilizing its Sec. 8 vouchers than many other localities. A large reason for this success has been the City's ability to aggressively put the vouchers out on the market because they are supported by the two- month Section 8 reserves. By cutting this reserve to one month, you will be crippling the effectiveness of the very model you touted at our hearing. In fact, in 1999, a senior HUD official was quoted as saying that such a reduction in reserves would represent "a serious threat to housing the baseline families." How do you reconcile this?

Answer: The FY 2002 Budget fully funds the costs of renewing *all* expiring Section 8 contracts. This minimizes any need to draw on PHAs' reserves.

In the past, a large 2-month reserve was needed to protect PHAs in the event of delays in Congressional appropriations or in the release of funds at the start of the fiscal year. Since 1999, however, HUD's budgets have provided sufficient funds to cover the costs of renewing Section 8 contracts through the end of the *calendar* year (which covers the first quarter of the next fiscal year). This change has substantially reduced the need for a large reserve. To date, only a small number of PHAs have requested access to the second month of their reserves.

Housing Production Program

Question: Given that in several neighborhoods around the country tight housing markets and escalating costs have resulted in vouchers going unused, how can you continue to justify the decision not to support a housing production program?

Answer: The Department realizes that in certain parts of our country new housing production may be necessary to address housing shortages where housing vouchers cannot be utilized. However, the Department believes that its core programs of housing vouchers, Section 202 elderly and Section 811 supportive housing for the disabled, HOPE VI Urban Revitalization grants, Multifamily FHA Mortgage Insurance, the HOME Investment Partnerships Program, along with the Low-Income Housing Tax Credit program, address many of our communities' housing availability needs. In addition, Congress has created the Millennial Housing Commission which is charged with developing legislative and regulatory recommendations to improve the delivery of housing services to our neediest Americans and expand affordable housing opportunities. It would be prudent to wait until the Commission has completed its analysis of the current programs and developed recommendations for improving our affordable housing system before we start a new production program.

Drug Elimination

Question: The Drug Elimination Program, which was funded last year at $309 million has been cut. It has been your contention that the $150 million increase to the Public Housing Operating Fund can be used for a wide variety of purposes, including the continuation of successful anti-drug efforts. However, you have also specifically stated that you expect this money to cover the rising utility costs. Given that estimates are that in the next year utility costs for PHAs will rise by nearly $300 million and the DEP cuts are another $309 million less in appropriations, how can you expect that an increase of $150 million will cover the costs of both of these programs?

Is it your contention that PHAs should choose between heating their apartments in the winter and providing effective drug elimination programs? Can these really be considered an either/or scenario?

Answer: The Department recognizes the importance of both providing adequate utility funding and effective drug elimination programs. However, the Department supports the autonomy of the local public housing authorities to determine which initiatives are most important in their respective areas and how best to support these priorities with available resources. Further, reviewing the Drug Elimination Program in concert with similar programs in other federal agencies has prompted the Department to seek partnerships with other agencies to either meld HUD's Drug Elimination programs with theirs or establish a working relationship wherein funding levels from each agency can complement the reduction in program funding at the other. Overlapping programs among Federal agencies can be brought together into a common effort through good partnerships and initiatives created and promoted at the Secretarial level, thereby freeing up resources for other initiatives, such as increasing utility costs.

Officer Next Door Program

Question: The new Administration has eliminated or temporarily shut down a number of programs which are designed to increase the day to day police presence in local communities. The Justice Department eliminated community policing and HUD has temporarily shut down the Officer Next Door program. I am concerned about the message this is sending and the impact it is going to have on our neighborhoods, particularly those low-income and minority communities where distrust between residents and cops is at an all-time high. In light of the recent events in Cincinnati, and reoccurring problems in many other urban neighborhoods, it is my belief that we should be fostering daily communication and interaction between local residents and law enforcement officials who serve in these areas. However, rather than building on some of the successful programs we have developed to foster trust between these groups, we are shutting them down. How does the Administration intend to address the dual issues of growing distrust of the police and decreasing security levels resulting from the termination of these two programs?

Answer: HUD is not able to respond regarding community policing. The Officer-Next-Door program has not been eliminated, but suspended until July 31. This action was taken after a HUD IG investigation revealed that some officers were not meeting the conditions under which the FHA owned homes were sold to them at a 50 percent discount. When this suspension was announced, 9 felony convictions and 15 indictments had occurred involving the purchase of homes under this program. The suspension allows FHA to explore the extent of the problem and develop controls.

HOPWA

Question: Under the President's proposed FY 2002 budget, HOPWA would receive a $20 million funding increase. However, several jurisdictions are also supposed to be added to this program. While I firmly support the decision to expand HOPWA's jurisdiction, I am concerned that, in light of rising costs, the proposed 7.7 percent funding increase will not be enough to cover the addition of several new localities, while maintaining the levels of service currently provided. How many new localities are going to be added to the HOPWA program in FY 2002 and what are they?

Answer: HUD is now in receipt of the applicable CDC AIDS surveillance data for the FY 2002 formula, and three localities will be added: Tuscon, AZ; Greenville, SC; and Charleston, SC, based on the statutory provision that the metropolitan area have more than 1,500 cases of AIDS.

Question: How much does HUD estimate it will cost to fund HOPWA only in those cities?

Answer: HUD estimates that the cost for formula allocations to those jurisdictions will be $1.3 million.

Question: Given these numbers will HUD be able to provide for the already existing HOPWA projects at least the 4 percent across the board increase being touted by President Bush?

Answer: HUD estimates there will be significant additional resources to meet the actual caseload need (about 7.4 percent more) for the existing grantees after figuring in the 3 new grantees mentioned above.

Actual Budget Numbers FY 2001 vs. FY 2002 Increase or Decrease

Question: Mr. Secretary, the Administration's FY 2002 budget proposal purports to increase the HUD budget by 7 percent. However, critics of this budget actually claim a decrease in the FY 2002 budget by $1.3 billion or $2.2 billion if you adjust for inflation.

Could you explain the difference between the $28.480 billion FY 2001 number you cite as the 2001 budget number and the $32,390 billion number cited by the outgoing Clinton Administration?

Answer: See attached table.

Question: How can you explain why the Clinton Administration ignored a $1.829 billion rescission of Section 8 funds, as scored by OMB/CBO?

Answer: I cannot speak for the previous Administration. However, it is also important to recognize that HUD's "bottom line" is not a good indication of the overall Departmental budget. Included in every bottom line are receipts and rescissions of prior year funds that can vary greatly from year to year.

The previous secretary asserted that HUD's budget was:

$32,390	This is the amount the previous administration showed on Oct 27 when the approps bill was enacted
$32, 534	This is the final 2001 budget after the .22% rescission, the addition of special purpose grants and EZ/EC funding included in the Omnibus Approps bill.
$-1,829	The previous administration ignored the rescission of Section 8 funds which were scored by OMB and CBO and which produced the actual budget for 2001
$30,705	This is the actual CBO/OMB scored budget for HUD in 2001
$-2,246	This reflects the decision by OMB, CBO and the Budget Committees last week to score FHA receipts on the discretionary side of the Budget rather than on the Mandatory side as has been done in the past
$28,459	
+$ 21	This is a minor technical change to reflect slightly lower receipts that previously anticipated
$28,480.	This is the amount released in today's budget

Actual Budget Numbers FY 2001 vs. FY 2002 Increase or Decrease

Question: There is some speculation that HUD has significant unexpended balances, i.e. funds that were appropriated in previous years but not spent. For example, in the past two years, Congress has rescinded almost $2 billion of balances, using the funds for other purposes. What is the estimate of HUD unexpended balances and how does that estimate factor into HUD's ability to evaluate the department's funding needs?

Answer: HUD's unexpended balances as of September 30, 2000 were $141 billion, including unobligated and obligated but unspent funds. The impact of this on HUD's requests is twofold: The first deals with recaptures. A good deal of these funds are obligated against long-term contracts, some of which will not expire until 2025. The Department continually monitors the expenditure of these funds as well as the status of the contracts and makes use of any anticipated recaptures. This is reflected in both HUD's FY 2001 and FY 2002 Budget requests. Both include proposals to use recaptured funds as offsets to program needs.

The second impact deals with how quickly programs spend their appropriated funds. This is certainly an issue in determining the amount of new program funds to request. The Public Housing Capital Fund is a good example of this. For FY 2002, the Department requested $700 million less than previously enacted because the large buildup of unexpended balances.

The Department is very serious about ensuring that programs spend their funds at an appropriate pace and that there is not a needlessly large buildup of unexpended balances.

Faith-Based Initiative

Question: Under the Community Development Block Grant program, HUD's budget proposal includes a set-aside for $20 million in competitive grants to provide funds to civic, community and religiously affiliated and other organizations that are exempt from the American With Disabilities Act requirements to make their facilities accessible to the disabled. Specifically describe what types of organizations would be eligible to receive these grants.

Answer: Eligible institutions for the Access Initiative are civic, community-based and religiously affiliated organizations that are exempt from the ADA of 1990. These may include organizations like the Moose Lodge, Habitat for Humanity, a church community development organization, etc.

FHA Mutual Mortgage Insurance Fund Re-estimates

Question: FHA mortgage insurance has provided the avenue to home ownership for millions of first time home-buyers and the ability to continue to move up to millions of repeat buyers. Do you believe the mortgage insurance fund is in excellent shape?

Answer: By the end of FY 2000, the MMI capital reserve was estimated to total nearly $17 billion, a ratio of about 3.5 percent of capital reserves over insurance-in-force. This has prompted debate over the adequacy of this reserve (2 percent is required by law), as well as discussion over potential uses of amounts found to be in excess. Recently, the GAO questioned the adequacy of the 2 percent minimum, and other studies have suggested the need for a substantially larger reserve. FHA continues to study the adequacy of current reserves, and has not yet made a recommendation. In its February 28 report to Congress, the General Accounting Office expressed caution over assessments of the financial condition of the Mutual Mortgage Insurance Fund and recommended further development of criteria for measuring the actuarial soundness of the Fund. The Department has confidence in the extensive improvements that have been made to its modeling and analytical capabilities for FHA programs, and specifically the single family loan guarantee programs of the MMIF. Nonetheless, we remain open to suggestions as to how our present capabilities and techniques can be improved.

Question: Do you see any changes to the single family FHA program, perhaps lower insurance premiums or more generous underwriting standards?

Answer: Legislation has been introduced in Congress that would divert reserves above a certain capital ratio to other affordable housing activities. The Department has not supported these proposals, but has indicated that further intensive analysis of the status of the MMI Fund is needed, including the effect of the 75 basis point upfront premium reduction implemented by the last Administration in January 2001. Under the new rule, premiums were substantially lowered for new FHA single family mortgage guarantees, cutting the upfront premium from 2.25 percent down to 1.5 percent and requiring annual premiums only until the loan unpaid principal balance amortizes to 78 percent of the original loan amount. Our analysis of the new premium structure still indicates a positive return on these new endorsements of over 2 percent, and barring a reversal in the estimated performance of these loans, they will contribute to further increasing the MMIF's capital reserve. We are also evaluating the possibility of resuming the payment of distributive shares to borrowers who have repaid their loans. This would restore the notion of "mutuality" to the MMIF, whereby participants share in the benefits of a well run program through a refund of the unused portion of their premium payments.

FHA Mutual Mortgage Insurance Fund Re-estimates

Question: As I understand, the FHA Mutual Mortgage Insurance Fund, which covers the popular single-family homeownership program, usually provides a negative subsidy, meaning that the program has a positive budget impact and does not cost the government from a budget perspective. Yet, the latest budget appendix shows that the "total subsidy outlays" for the MMI Fund in FY 2000 were -$1.854 billion. However, the same table shows that in FY 2001, the total subsidy outlays are projected to be +S1.344 billion—not a negative subsidy but a positive expense. There appears to be a pattern, particularly in the last Administration of providing rosy FHA budget scenarios that ultimately require a re-estimate, costing the government money. Why are we having these re-estimates?

Answer: Under Credit Reform, agencies with loan programs are required to estimate the net cost (positive subsidy) or net income (negative subsidy) of Federal loans over the entire loan life at the start of the loan period for each book of business, and to annually project changes to the original estimates. While the -$1.864 billion is the negative subsidy for FY 2000, the +$1.344 billion represents the net amount of the FY 2001 negative subsidy of -$2.006 billion and the upward re-estimate of +$3.35 billion for the 1992-2000 cohorts. The re-estimates of +$3.3 billion reflect the actual loan performance for the 1992-2000 books of business and current estimates of future performance for each of these books. The original subsidy amounts for FYs 1992-2000 amounted to $16.6 billion. While with the net of all changes, including re-estimates, and legislative savings, the net subsidy amount at the fix up from 1992 through 2000 was $16 billion, a net difference of 4 percent.

Also, over the past 2 years, there have been some differences between what OMB thinks loan performance in future years will be and what the MMI Actuarial Review projects performance to be. For instance, the OMB estimate is reflected in the $3.35 billion re-estimate figure for FY 2000 and prior cohorts and in the fact that no figure was apportioned, and thus could not be obligated, for in FY 2000 for 1999 and prior cohorts. In contrast, the DRI estimates of MMI performance from the 1999 and 2000 Actuarial Reviews are reflected in FHA's audited financial statements – the MMI net assets less the MMI liability for loan guarantees – the +$2.94 billion for 2000 and -$1.99 billion for 1999, resulting in a net difference of +$949 million.

Question: Is it possible that the FHA Mutual Mortgage Fund is not performing well, over the last two years?

Answer: The Mutual Mortgage Insurance Fund exceeded its 2 percent capital reserve in 1995 (2.05 percent), and reached a capital ratio of 3.5 percent at the end of FY 2000. The projected MMI capital ratio in the 2000 Actuarial Review in 2001 of 3.8 percent includes the projected effect for insurance endorsed after January 1, 2000 of the reduction of the up-front insurance premiums for MMI from a basic rate 2.25 percent to 1.5 percent, and cancellation of annual premiums when the unpaid principal balance of the loan reaches 78 percent of the original loan amount. The program continues to project negative subsidy of about 2 percent, and has contributed, even with re-estimates, $16 billion since 1992 to the Federal surplus calculations. Based on this outside evaluation, MMI is performing well.

Question: As a related question, we read the shift from a net negative subsidy to a positive subsidy as $3.049 billion in "re-estimates of loan guarantee negative subsidy." Is this correct, and does this mean that FHA is experiencing very high default rates?

Answer: This is not a shift from negative to positive subsidy; but a shift to a slightly less negative subsidy rate in some books of business. Below is a table of the original subsidy rates and the currently re-estimated rates:

	Original Rates	Re-estimated Rates
1992	-2.60%	-4.32%
1993	-2.70%	-2.86%
1994	-2.79%	-2.46%
1995	-1.95%	-1.46%
1996	-2.77%	-1.65%
1997	-2.88%	-2.82%
1998	-2.99%	-2.98%
1999	-2.62%	-2.68%

Question: Could this trend continue over the next 2 budget years?

Answer: We expected performance over the next several years to continue at a subsidy rate of about –2 percent, and the capital ratio to continue to increase.

Question: How can you assure this Committee that the FY 2002 FHA subsidy estimate of -$2.501 billion is accurate?

Answer: Estimates, by their very nature, cannot be 100 percent accurate – the estimate is as accurate as we can make it within the limitations of estimating the size of the books of business with endorsements in 2002, loan performance, economic conditions, etc., more than a year in advance.

The subsidy amount of $2,501 million is the 2002 subsidy rate times the expected endorsements in FY 2002 for the 2002 cohort plus the 2001 subsidy rate times the endorsements in 2002 for the 2001 cohort.

Question: What legislative or regulatory reforms are you anticipating to ensure that FHA remains profitable, rather than a potential liability to the taxpayers?

Answer: FHA is "profitable" - since 1992, FHA negative subsidy has contributed $16 billion to the Federal surplus, and has capital reserves well above the required level. Since FHA is on a sound financial footing, it may be time to re-examine restoring the "mutuality" of the MMI Fund, and determine how to return to FHA borrowers some of surplus above the required levels their fees have built up. Statutory authority is already available for returns based on mutuality.

Public Housing Funding

Question: Mr. Secretary, the FY 2002 proposed budget increases the operating subsidy for public housing authorities by $150 million. At the same time, the budget proposes to decrease funding for the capitalization/modernization fund, which I understand is necessary to refurbish public housing units. Yet, the previous Administration left a $6 billion backlog in unfunded or unobligated funds. I further understand that a March 2000 report was prepared for the Department on the capital needs of the public housing stock where 1.2 million units of public housing were unmet or about $22.5 billion or almost an average of $19,000 per unit. Could you explain the importance of the modernization fund and why there is such a significant backlog of unobligated funds? To what extent are the capital needs growing each year—accrual needs, in addition to the existing backlog? What is the level for unobligated funds versus unused funds? How is the backlog of needs prioritized?

Answer: The Capital Fund is an annual formula distribution of funding designed to provide public housing authorities (PHAs) with the maximum flexibility for the use of those funds to meet individual community capital needs situations for modernizing or replacing public housing units. The latest study of existing capital needs for public housing placed that figure at about $22 plus billion as of June 1998. That study also estimated that capital needs accrued at the rate of about $2.1 billion per year. Capital needs are not increasing over time because appropriations for the Capital Fund have been sufficient, and proposed appropriations are sufficient, at least to cover the accrual needs. Some of the spending under HOPE VI also addresses the capital backlog.

Currently the PHAs have almost $8 billion in unexpended capital funds (not including HOPE VI) and about $3.2 billion in unobligated funds, including FY 2001 funds. PHAs prioritize the spending of capital funds through a local process resulting in a 5-year and annual PHA Plans.

Question: How will HUD distribute the $6 billion that is available to PHAs?

Answer: The funding that has been made available to PHAs was done so on the basis of the statutory provisions of the formula in current regulations.

Question: How do you respond to public housing authorities who claim that they are following the rules, particularly established by regulation and in the 1998 public housing reform bill, that allows them a three-year timeline to obligate funds and therefore the $6 billion backlog is merely an allusion?

Answer: The Department, in its Budget request, reflected upon the high balances in the pipeline of unobligated and unexpended amounts when it made its FY 2002 Budget request, as well as the level of accrual needs. PHAs will have needs covered and have substantial funds in the pipeline to address existing needs.

Question: I understand that the $700 million decrease will be across-the-board. Will this across-the-board approach have unintended consequences for those public housing agencies that have few or no unexpended balances because they spend their funds in a timely manner?

Answer: Under the current formula system for distributing capital funds, all PHAs will be impacted in proportion to their formula shares by the level of funding appropriated. This is due to the nature of a formula distribution process. However, those that are determined to be high performers will be in a position to receive a portion of funds withheld from PHAs that did not obligate them in a timely manner. Under the Public Housing Reform Act, the withholding starts in FY 2002 and any such funds would be distributed in FY 2003.

Question: Has the Department made any assessment as to the number of properties within the public housing inventory where it wouldn't make economic sense to make the needed repairs given both the cost of improvements and the ongoing costs of operating the properties relative to their economic and social value? If the Department has made such an assessment, what were the results? If no assessment, why?

Answer: HUD has made a number of its own assessments under provisions of the law that call for mandatory conversion to vouchers of certain distressed public housing projects that would cost more than vouchers to operate. PHAs also have made such assessments of their developments. As a result of both of these initiatives, HUD has approved applications for demolition of well over 100,000 public housing units in recent years.

Public Housing Funding

Question: HUD states that it is providing $105 million of FY'01 Public Housing Operating funds to quickly respond to rising utility costs. The Department states that it will distribute $55 million of these funds by formula and provide $50 million to PHAs with extraordinary utility rate increases. As a result of the utility rate increases, HUD is requesting an additional $150 million over FY 2001 Public Housing Operating Fund funding levels. What basis did HUD use to estimate that PHAs will need an additional $105 million for utility costs this year and an additional $150 for FY 2002?

Answer: The additional $105 million that HUD will provide for rising utility costs was not an estimate that was established during the development of the 2001 Budget nor were these resources anticipated to be available in FY 2001 when its Budget was submitted to Congress in January 2000. However, at the end of FY 2000, there were $55 million in unobligated and recaptured funds carried forward for use in FY 2001. In addition, Congress appropriated $50 million more in new funding than HUD requested for the Operating Fund in FY 2001. Of the $105 million available funding, $55 million is being distributed by formula for FY 2001, and $50 million is being used to alleviate dire emergency utility costs being experienced by PHAs with fiscal years ending June 30, 2001 or September 30, 2001 (and for whom it would cause substantial hardship to wait the usual time for reimbursement of costs related to utility increases).

Question: Is the entire $150 million requested to help PHAs pay for utility rate increases?

Answer: The $150 million requested in FY 2002 takes into consideration all eligible uses for operating subsidies, including utilities. The use of operating subsidies is determined by the PHAs at the local level.

Question: How would HUD allocate the additional funding requested for utility rate increases?

Answer: HUD does not generally make a separate and distinct distribution of operating subsidies to PHAs solely for utilities. Utilities are only one of a number of components that a PHA takes into consideration when it determines its subsidy eligibility for its budget year. Regulatory language provides the general framework for this determination. HUD neither requests operating subsidy funding nor distributes such funds to PHAs for individual categories of expenses.

Drug Elimination

Question: Drug Elimination: The HUD FY 2002 budget proposes to eliminate the Public Housing Drug Elimination Program, which provides formula grants to local housing agencies to help reduce activity in public housing. Part of HUD's rationale is that the program is 1) duplicative, 2) other Federal funds are available and 3) a misuse of funds, as designated by the HUD Inspector General. Mr. Secretary, how do you respond to criticism that the program is necessary to fight crime in public housing developments where it appears that crime statistics are the most startling?

Answer: It is not the intention of this Administration to eliminate crime-fighting programs in public housing developments. In fact, the Administration's overall FY 2002 budget includes over $18 billion for agencies tasked with law enforcement and drug abuse treatment. Rather the rationale behind the elimination of the Public Housing Drug Elimination Program in the President's FY 2002 Blueprint and Budget is the recognition that other agencies are better suited to this task since their primary mission is the prevention of criminal and drug activity, while HUD's primary mission is the management and oversight of housing programs. Accordingly, a more efficient use of the taxpayers dollars would be to fund anti-drug fighting activities through the agencies tasked with the prevention of criminal and drug activity, while the HUD budget dollars and efforts should be focused on its primary mission of providing adequate and safe housing to all Americans. This is not to say that the Department intends to ignore the crime statistics in public housing developments. On the contrary, the Department intends to undertake other efforts to ensure the continued elimination of drug and criminal activity in public housing developments, to include, but not limited to: pursuing partnering efforts with other agencies whose core missions include law enforcement and drug abuse treatment, continuing to encourage local housing authorities to develop partnerships with local police departments, and forming partnerships with faith-based organization who provide treatment and counseling. Such initiatives will result in a more concentrated utilization of funds and a potential opportunity for more effective and coordinated results.

Question: Before the creation of this program, how were the public housing authorities handling crime issues? Were the local governments involved? Did you see a segregation of public safety/crime-fighting services after the Drug Elimination grant program was implemented?

Answer: Prior to the initiation of the Drug Elimination Program, the crime issues facing public housing authorities were fully recognized and attempts to bring together local forces that could alleviate the problems plaguing Public Housing Authorities were implemented where possible.

- Fully eligible activity under operating subsidies
- Initial funding was only $8 million
- Residents deserve protection with or without PHDEG.

Question: The HUD Inspector General provides a number of examples of how these funds were misused. One of the most glaring examples is the Creative Wellness initiative where funds were spent to provide cosmic cycle updates on the spiritual awakening and transformation of the global world body***as well as $860,000 to the National Institute for Medical Options to provide programs on god/goddess typing, etc. Could you expand on the abuses you found that might have provided the foundation for eliminating this program?

Answer: Since the HUD Office of Inspector General's Report is not final and is currently being subjected to review and comment, it would be inappropriate at this time to elaborate more than to say the draft report indicates that some alleged and unsupported activities utilizing Drug Elimination Funds may have occurred. At this time these allegations are being subjected to a fact finding review, after which the Department will reconcile discrepancies in the results, and implement corrective actions to ensure full accountability of all funds, as warranted.

Question: What is the existing authority of the public housing authority to continue these crime-fighting activities? How can we encourage more collaboration between local government police forces and the communities in which they are supposed to serve?

Answer: The 1998 Public Housing Reform Act requires that All Public Housing Authorities are charged with the responsibility of providing safe housing for their tenants. A major component of this responsibility is to address drug related activity and seek solutions to eliminate the problem and improve the living environment. HUD's Division of Safety and Conservation has established strong levels of working relationships with Public Housing Authorities and can use this high level of partnership to motivate increased collaboration between local government resources and Public Housing Authorities. The Department will continue to provide technical assistance to public housing communities.

Question: Do you anticipate any harm to these communities by elimination of these funds?

Answer: The Department does not anticipate any harm to these communities as a result of the elimination of the Public Housing Drug Elimination Program. Rather the Department anticipates increased opportunities for success in this area through the establishment of partnerships and working agreements with other federal agencies to capitalize on the overall funding levels available for fighting criminal and drug activities, whether within public housing units or elsewhere. Better utilization of limited resources and active coordination among the interested parties will clearly enhance the opportunity for a better living environment among public housing residents by more fully focusing the current efforts for fighting criminal and drug activities.

Drug Elimination

Question: Drug Elimination: In FY 2001, $20 million of the $310 million appropriated for the Drug Elimination Program was appropriated to the HUD Inspector General to carry out Operation Safe Home, an OIG program to combat drugs and violent crime in public and assisted housing. The President's Budget proposes reducing funding for Operation Safe Home to $10 million and funding Operation Safe Home from the Operating Subsidy through public housing authorities. Why is the Operation Safe Home funding being reduced and is there a contradiction in funding this program that provides some crime-fighting support, while at the same time eliminating the Drug Elimination program because it may not be part of HUD's mission? Why is the Operation Safe Home funding being continued? Has HUD found this program to be effective in a way that the Drug Elimination program has not? What oversight is done of the Drug Elimination program grant money that goes to the Inspector General?

Answer: Funding for Operation Safe Home program is being reduced to $10 million for FY 2002 because the program has incurred large unobligated balances that are not being used.

Our decision to request funding in the FY 2002 Budget for Operation Safe Home, but not the Drug Elimination Program, was due to important differences between the two programs. Nevertheless, the Department does have concerns with both the mission and execution of Operation Safe Home. We are presently reviewing a draft GAO report on the program as well as the legal issues involved in our participation in this program to determine how we wish to proceed.

Operation Safe Home is the name for a set of activities conducted by the Office of the Inspector General that help to support and coordinate the efforts of multiple law enforcement agencies - including the FBI, DEA, ATF, along with Federal and State prosecutors, and State police agencies. HUD's request to fund this program in FY 2002 is due to our interest in ensuring that these various Federal and State agencies coordinate their efforts to address crime in public housing. This funding helps the IG perform this function.

The oversight of the Inspector General's activities under "Operation Safe Home" include:

-- Investigations into fraud, waste and abuse in public housing agencies;
-- Investigating equity skimming in FHA-insured multifamily properties; and
-- Coordinating Federal, State and local law enforcement agencies to combat violent and drug-related crime in public and assisted housing.

It may make sense to continue some of these activities, but not others.

GAO is the oversight agency for the Drug Elimination program grant money that goes to the Inspector General. As indicated above, GAO has reviewed the program.

Housing for Elderly & Handicapped

Question: Can you update the Committee on HUD's progress in compiling and publishing the inventory of assisted housing properties that have changed their tenant selection policies to favor elderly over non-elderly disabled in accordance with Title VI of the Housing and Community Development Act of 1992?

Answer: HUD does not track how many owners have self-elected to restrict their 202 housing properties for only elderly tenants. However, HUD has an agreement with industry partners to submit tenant data on handicapped and disabled units scheduled for the third quarter of FY 2002. Thus, beginning in FY 2002, HUD will be collecting information on the number of assisted tenants with disabilities and handicapped units.

This data should enable HUD to report the following:

1. The number of tenants with disabilities, including the type of disability;
2. The number of handicapped-equipped units;
3. The number of tenants with disabilities in handicapped-equipped units; and,
4. The number of tenants with disabilities not living in a handicapped-equipped unit.

HOME

Question: For FY 2002, the budget dedicates $200 million within the HOME Investment Partnerships program for President Bush's new initiative, the American Dream Downpayment Fund. While I strongly support this new initiative to provide downpayment assistance to low-income families, I am concerned about criticism that the proposal would divert much-needed funding from the HOME program. Is there any validity to these arguments that this program would be in conflict with HOME program goals, designed to provide State and local governments with the flexibility to address housing needs as they see fit?

Answer: I would have preferred to be able to fund the Downpayment Assistance Initiative by adding an additional $200 million above the FY 2001 funding level for the HOME program. Setting aside $200 million for this Initiative does somewhat reduce the flexibility in the program; although, this proposal basically improves on already ongoing activities. However, I believe there is very strong support for making homeownership a top priority, and this Downpayment Assistance Initiative will provide a significant expansion of homeownership opportunities with measurable results.

Community Development Block Grants

Question: As of September 30, 2000, the CDBG program maintained an unexpended balance of $9.9 billion. $2.8 billion has been identified in the state portion of the program. How much of the remaining $7.1 billion can be attributed to entitlement communities and other programs?

Answer: The majority ($5.16 billion) of the remaining $7.1 billion is from the Entitlement Communities. The unexpended balances, both obligated and unobligated, for the CDBG fund as of September 30, 2000 are as follows: Entitlement Communities - $5.16 billion; States and Small Cities - $2.994 billion; Economic Development Initiative - $757 million; Disaster Assistance - $248 million; Native American CDBG - $193 million; Resident Opportunities and Self-Sufficiency (ROSS) - $146 million; and all other CDBG community and university programs - $410 million.

Question: In addition, how much of the unexpended balance is the result of ACAH (Annual Contribution for Assisted Housing) transfers? Please explain what is ACAH?

Answer: The Annual Contribution for Assisted Housing account included funding for several housing programs including Public Housing, Incremental rental assistance and vouchers, Housing Opportunities for Persons with AIDS, and Housing for the Elderly and Disabled. New funding for the account was last provided in FY 1995. Since that time, funding has been requested in other accounts. In FY 2000, all remaining funds were transferred out of ACAH, including $269 million of obligated but unexpended balances, which were transferred to CDBG.

Community Development Block Grants

Question: HUD's FY 2002 budget request indicates that $277 million in obligated but unexpended funds have been transferred into the CDBG program. What portion of this amount was transferred from the ACAH (Annual Contributions for Assisted housing) account and does this amount represent the full amount transferred?

Answer: The amount of the transfer of obligated balances from Annual Contributions for Assisted Housing to CDBG during FY 2000 was $269 million, per the FY 2002 Budget Appendix (Page 493, line 72.32 in the Program and Financing schedule and page C-12 in the FY 2002 CDBG Budget Justifications). This is the updated actual figure which compares to the earlier estimate in the FY 2001 Budget Appendix. This represents the total transfer of all obligated balances to CDBG.

Question: To what extent does HUD know the availability of these funds?

Answer: There is less than $22 thousand remaining unobligated for CDBG.

Rural Housing and Economic Development

Question: The FY 2002 budget proposes terminating HUD's Rural Housing and Economic Development program. The program made $25 million available for FYs 1999 and 2000 for building capacity of local rural nonprofit organizations, community development corporations, and other local organizations. The reasons given for program elimination are that it duplicates several programs, including CDBG and programs of the Department of Agriculture. Has any work been done to measure the effectiveness of HUD's FY 1999 and 2000 Rural Housing and Economic Development program?

Answer: The Rural Housing and Economic Development Program projects are monitored by our field offices, and there has been evidence of progress. The projects in 1999 and 2000 are expected to create 8,000 jobs, train 4,000 people, and construct/rehabilitate 4,000 housing units. In addition, grantees are developing revolving loan funds for housing finance and small business development.

Question: GAO suggested merging the HUD and USDA capacity building programs in order to make the process more efficient and cost-effective. Has any consideration been given to moving all or part of these program funds to USDA so that one organization could oversee capacity building for both large and small nonprofit rural organizations?

Answer: As you know, HUD's FY 2002 Budget proposes to terminate the Rural Housing and Economic Development Program. The termination reflects the existence of duplicative HUD and USDA efforts and the fact that USDA has far greater resources in this area. This should address GAO's comments on the consolidation of capacity building activities.

Partnership for Advancing Technology in Housing (PATH)

Question: Mr. Secretary, the Partnership for Advancing Technology in Housing (PATH) is vital to the accelerated development of new housing technologies, designs and practices that can significantly improve the quality of housing and save energy without raising the cost of construction. As you know, however, the budget assumes elimination of this program. With the current energy crisis, should Congress review the importance of this program, which facilitates the production of energy efficient homes?

Answer: It is an appropriate Federal role to stimulate activity in the private sector towards a national goal; once this stimulation has occurred, however, it is the responsibility of industry to continue this activity without being dependent on ongoing government support.

With 3 years of funding ($30 million), PATH has succeeded in bringing the disparate interest groups in housing construction together to recognize the need for cooperative research planning. The program has also fostered a great deal of interagency cooperation. The groundwork that the PATH initiative has laid through raising awareness and sharing of information should allow the industry to implement a long-term research program without the financial support of a formal PATH program.

It should be noted that, as was the case before the initiation of PATH, HUD's Office of Policy Development & Research will continue to conduct research on housing technology issues independent of a formal PATH program.

Special Needs Housing

Question: The President's FY 2002 budget proposes to freeze funding for the Section 811 program at $217 million. Given the increase in per unit costs likely to occur through inflation and added funds needed to renew expiring contracts, would this proposed freeze result in fewer units being produced through the capital advance/project-based portion of the program?

Answer: Yes, there will be a reduction in units. For example, in FY 2000, $201 million was appropriated for the Section 811 program that enabled the Department to allocate sufficient capital advance funds to the field offices to support 1,505 units. This fiscal year, $217 million was appropriated for the program that was a $16 million increase. However, only 1,367 units were allocated to the field offices (a decrease of 138 units) due to inflation and a deliberate increase in the development cost limits to bring them into parity with the actual costs to develop the projects. With the funding being held constant and some of the funds used to renew expiring contracts, there will be a definite reduction in units even if there is no inflation.

Special Needs Housing

Question: Efforts initiated in the last Congress began the process of promoting greater flexibility in the Section 811 program to allow non-profits to develop, rehabilitate, purchase, or rent small scale or scattered site housing desired by people with disabilities. For example, P.L. 106-569 (Section 842) for the first time allows non-profits to layer the LIHTC (Low Income Housing Tax Credit) with Section 811 funds by collaborating with a for profit partner. These and other legislative and regulatory reforms are essential to speed up production and eliminate years of cumulative "red tape" and bureaucracy. Does HUD support keeping the primary focus of Section 811 on production of housing for people with the most severely disabilities with no more than 25 percent of the funding being targeted for tenant-based rental assistance as set forth in Section 843 of P.L.106-569?

Answer: While HUD supports limiting the amount of Section 811 appropriations used for tenant-based assistance to 25 percent, it must ensure that the program is implemented according to the statutory requirements. The definition of "person with disabilities" in the statute does not include any reference to the severity of a person's disability; therefore, occupancy in a Section 811 project must follow the statutory and regulatory requirements. HUD supports providing a broad range of housing options so that persons with disabilities who need housing assistance, whether it is a group home, an independent living project, a Section 8 voucher or an FHA mortgage, will be able to get that assistance through HUD.

Question: Would you be willing to work with members of this Subcommittee on legislation that builds on the provisions in P.L. 106-569 to further streamline the Section 811 application process to promote greater program flexibility to help non-profit sponsors develop smaller, scattered site housing?

Answer: HUD would be very willing to work with the Subcommittee Members on legislation that builds on the provisions in P.L. 106-569 to further streamline the Section 811 application process to promote flexibility to help non-profit sponsors develop smaller, scattered site housing.

Section 202 Elderly Housing

Question: Regulations state that Section 202 elderly housing projects must reach initial closing, the point at which construction of the project can begin, within 18 months or HUD can recapture the funds. HUD may grant waivers up to 24 months for those projects under certain limited conditions. However, in its April 2000 study of the program, Arthur Anderson reported that from FY 1991 through FY 1998, 45 percent of the elderly housing projects did not reach initial closing within 24 months of award of the funds. In addition, Arthur Anderson reported that HUD rarely recaptures Section 202 funds. Approximately how many Section 202 projects representing how much funding are currently over the 24-month timeframe for reaching initial closing?

Answer: Of the Section 202 projects funded since FY 1991 which have not yet reached initial closing, approximately 102 projects totaling over $336.8 million in Capital Advance funds and over $119.3 million in Project Rental Assistance Contract funds, have fund reservations which are currently over 24 months old. The 102 projects represent approximately 8 percent of the Section 202 projects funded between FY 1991 and FY 1998, inclusive.

Question: Generally, why are these projects delayed?

Answer: As reported in the Arthur Anderson study and based on the Department's knowledge of the development of these projects, delays are generally attributable to the following: (1) Inexperienced Sponsors who require more time to move their projects because they may tend to select poorer sites, have difficulty in fulfilling local government requirements, and lack access to "seed money" needed to cover pre-construction costs incurred prior to initial closing and disbursement of HUD funds; (2) Site issues, many of which are unavoidable, such as, unexpected local government delays in approval of sites, discovery of contaminants on the site which was not known or detected at time of fund reservation award, community opposition which, in some cases, lead to litigation. In some instances, the site problems are very difficult to overcome and the Sponsors are forced to request permission to change sites which further delays the development of the project; and (3) In some cases, the Section 202 fund reservations are not sufficient to cover the total project development cost. In such cases, Sponsors must seek secondary financing or funding from other outside sources to cover the financing gap. The time required to secure additional funding can be a lengthy process. However, it should be noted that the Department recently published in the Federal Register (on January 22, 2001) increased development cost limits that we anticipate will help reduce the Sponsor's need for outside funding for projects to be funded in FY 2001 and thereafter.

Question: Can funding be recaptured from these projects? If so, approximately how much? If HUD cannot recapture funding from these projects, why not?

Answer: Technically, once a fund reservation has expired (over 18 months or over 24 months, if not extended by the HUD Field Office or HUD Headquarters, respectively), the Department may initiate action to cancel the fund reservation by first issuing a Notice of Intent to

Cancel the Fund Reservation to the Sponsor/Owner. In this regard, the Section 202 statute requires the Department to notify the Sponsor/Owner of its intent to cancel their fund reservation and provides the Sponsor/Owner a 30-day period in which to file an appeal. If such is the case and the Sponsor/Owner demonstrates that their project is currently proceeding in a satisfactory manner, the Department generally extends the fund reservation. In any event, recapture of a fund reservation cannot occur until after conclusion of the Notice of Cancellation/Appeal process which is done on a case-by-case basis. If the Department makes a determination to cancel a fund reservation, the total Capital Advance amount and the related Project Rental Assistance Contract amount reserved for that project are then recaptured.

Section 202 Elderly Housing Program

Question: Prior to 1991, HUD provided capital assistance for Section 202 housing through long-term direct loans and 20-year rental assistance contracts under the project-based section 8 program to cover reasonable construction and operating costs. In March 2000, HUD reported that about $3.9 billion in unspent Section 8 funding are obligated for the Section 202 projects funded with direct loans. Section 202 sponsors with direct loans can prepay or refinance these loans, thus reducing their need for project-based assistance and raising the possibility that HUD could use some of the assistance currently obligated for these projects for other purposes. How many Section 202 sponsors with direct loans have applied for prepayment or refinancing and how much in Section 8 project-based assistance does HUD estimate it might be able to use as a result of these prepayments and refinancings and the resultant reduced need for the project-based assistance?

Answer: The Department issued Notice 00-26 on December 11, 2000 to clarify and standardize guidance regarding the prepayment of Section 202 direct loans. The Notice includes underwriting guidelines where the borrower is proposing to use FHA mortgage insurance to refinance the loan. This Notice utilizes the authority of Section 202(j)(1) of the Housing Act of 1959, and includes the directive that requests from project owners to prepay must be approved by HUD.

On December 27, 2000, the American Homeownership and Economic Opportunity Act of 2000 was enacted (Public Law 106-569). Section 811 of this measure included additional authorities relating to the prepayment and refinancing of Section 202 direct loans. The newly issued Notice encompasses the intent and provisions of this section of the new statute; the Department intends to continue processing of prepayment requests under the Notice, and existing authority.

A recent query of the Multifamily Real Estate Management System (REMS) identified prepayments of only 11 Section 202 direct loans. In each case, the project had the right to prepay without approval by the Department, and in only one of these cases was the Section 8 rent reduced as a result of the prepayment transaction. This very small number of prepayments is inadequate to serve as the basis for any projection of future activity. The Department has not established a systematic procedure to track requests for prepayment of these loans, but there is growing evidence that a number of project owners are considering submitting requests, or have such requests under review in field offices.

HUD Notice 00-26, as well as Section 811, reflects the strong preference for project owners, in addition to refinancing the project's debt at current lower interest rates, to perform needed repairs, deferred maintenance or up-grades to the properties, to provide additional supportive service activities and expand the number of units for the clientele being served by the project, if these costs are supportable within the current Section 8 subsidy being provided to the project. Even with a growing number of prepayments and refinancings, the guidance of the Notice and the age, nature of these projects, and their need for improvements, make it unlikely that substantial amounts of Section 8 funding will be recaptured as a result of refinancing.

Disability Vouchers

Question: The President's FY 2002 budget proposes no funding for the current set aside of vouchers for non-elderly people with disabilities adversely affected by designation and public and assisted housing as "elderly only." Over the past 5 fiscal years, Congress has appropriated at least $40 million a year for this purpose. Why is the Administration proposing to zero-out this program given the continued efforts of housing authorities and assisted housing owners to change their tenant selection policies to disfavor people with disabilities?

Answer: The Department supports the use of vouchers to assist non-elderly persons with disabilities who may be excluded from housing opportunities as a result of local PHAs and housing providers designating public and assisted housing as "elderly only." Our FY 2002 Budget does allow and encourage PHAs to spend up to $40 million in Section 8 assistance for this purpose. Further, preference to disabled families is one of the criteria used by HUD in selecting applications for funding. Fifteen out of a hundred points are assigned to the PHAs that indicates at least 15 percent or more of the vouchers they are requesting under Fair Share Incremental Vouchers NOFA will be used to house disabled families.

As in the past, HUD also plans to use up to 25 percent of funding under the Section 811 Supportive Housing for the Disabled program to provide disabled persons with vouchers to ensure that they have mainstream housing opportunities.

McKinney-Vento Homeless Assistance Program

Question: The Administration's budget proposes to maintain the current $100 million account for 1-year renewal of Shelter Plus Care rent subsidies. Congress created this separate account last year in order to ensure the stability of permanent supportive housing for homeless people with disabilities served by Shelter Plus Care. Does HUD anticipate $100 million being a sufficient amount to cover all Shelter Plus Care renewals expected in FY 2002?

Answer: The FY 2001 VA-HUD-IA Appropriations Act provided $100 million to renew Shelter Plus Care projects that were expiring in FY 2001 and FY 2002. The FY 2002 Budget proposes $100 million to renew Shelter Plus Care projects that will expire in FY 2003. This corresponds to the timing of the Homeless Assistance Grants competition. Estimating the amount of funding needed to renew expiring Shelter Plus Care projects complicated by many factors outside the Department's control. However, we anticipate that the requested amount will be sufficient to renew all expiring projects for these years.

McKinney-Vento Homeless Assistance Program

Question: The Shelter Plus Care renewal account that HUD established last year did not include renewal of expiring SHP (Supportive Housing Program) permanent housing rent subsidies. Bipartisan legislation introduced in the House this year (H.R. 888) would treat these SHP permanent housing renewals the same as Shelter Plus Care and provide long-term stability for the formerly homeless, disabled tenants served by these programs by shifting renewals to the Housing Certificate Fund. Would the Administration support such an approach to ensure the long-term viability of the permanent housing component of the McKinney-Vento Homeless Assistance program?

Answer: The proposal to treat Supportive Housing Permanent Housing renewals in the same manner as we did Shelter Plus Care renewals last year would help ensure the long-term housing security of Supportive Housing residents. However, estimating renewal needs and developing renewal mechanisms are more complicated than in Shelter Plus Care. The reasons include the non-housing resources involved and the different sources of matching funds. The Department is currently analyzing the potential mechanisms, requirements and outcomes of the approach before we finalize our views.

Mental Health Action Plan

Question: Secretary Martinez, in 1998 Congress directed HTJD to develop a 'Mental Health Action Plan' to address the issues related to severe mental illness treatment needs of residents of public and multi-family assisted housing (Section 517 of P.L. 105-276). Can you please update the Subcommittee on HUD's progress in implementing this requirement? When do you anticipate HUD publishing the Mental Health Action Plan and best practices guideline for PHAs private owners of assisted housing?"

Answer: A consultation to develop a mental health action plan was conducted during the last Administration, which provided some recommendations, but this work was not completed. Moreover, an action plan requires agreement between HUD and HHS. This effort will be resumed, so that the initiative may be completed over the next year.

O