

THE ECONOMIC DISASTER AREA ACT OF 2009

HEARING
BEFORE THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED ELEVENTH CONGRESS
FIRST SESSION

—————
JUNE 19, 2009
—————

Printed for the use of the Committee on Financial Services

Serial No. 111-48



U.S. GOVERNMENT PRINTING OFFICE

52-405 PDF

WASHINGTON : 2009

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

HOUSE COMMITTEE ON FINANCIAL SERVICES

BARNEY FRANK, Massachusetts, *Chairman*

PAUL E. KANJORSKI, Pennsylvania
MAXINE WATERS, California
CAROLYN B. MALONEY, New York
LUIS V. GUTIERREZ, Illinois
NYDIA M. VELAZQUEZ, New York
MELVIN L. WATT, North Carolina
GARY L. ACKERMAN, New York
BRAD SHERMAN, California
GREGORY W. MEEKS, New York
DENNIS MOORE, Kansas
MICHAEL E. CAPUANO, Massachusetts
RUBÉN HINOJOSA, Texas
WM. LACY CLAY, Missouri
CAROLYN MCCARTHY, New York
JOE BACA, California
STEPHEN F. LYNCH, Massachusetts
BRAD MILLER, North Carolina
DAVID SCOTT, Georgia
AL GREEN, Texas
EMANUEL CLEAVER, Missouri
MELISSA L. BEAN, Illinois
GWEN MOORE, Wisconsin
PAUL W. HODES, New Hampshire
KEITH ELLISON, Minnesota
RON KLEIN, Florida
CHARLES A. WILSON, Ohio
ED PERLMUTTER, Colorado
JOE DONNELLY, Indiana
BILL FOSTER, Illinois
ANDRÉ CARSON, Indiana
JACKIE SPEIER, California
TRAVIS CHILDERS, Mississippi
WALT MINNICK, Idaho
JOHN ADLER, New Jersey
MARY JO KILROY, Ohio
STEVE DRIEHAUS, Ohio
SUZANNE KOSMAS, Florida
ALAN GRAYSON, Florida
JIM HIMES, Connecticut
GARY PETERS, Michigan
DAN MAFFEI, New York
SPENCER BACHUS, Alabama
MICHAEL N. CASTLE, Delaware
PETER T. KING, New York
EDWARD R. ROYCE, California
FRANK D. LUCAS, Oklahoma
RON PAUL, Texas
DONALD A. MANZULLO, Illinois
WALTER B. JONES, Jr., North Carolina
JUDY BIGGERT, Illinois
GARY G. MILLER, California
SHELLEY MOORE CAPITO, West Virginia
JEB HENSARLING, Texas
SCOTT GARRETT, New Jersey
J. GRESHAM BARRETT, South Carolina
JIM GERLACH, Pennsylvania
RANDY NEUGEBAUER, Texas
TOM PRICE, Georgia
PATRICK T. McHENRY, North Carolina
JOHN CAMPBELL, California
ADAM PUTNAM, Florida
MICHELE BACHMANN, Minnesota
KENNY MARCHANT, Texas
THADDEUS G. McCOTTER, Michigan
KEVIN MCCARTHY, California
BILL POSEY, Florida
LYNN JENKINS, Kansas
CHRISTOPHER LEE, New York
ERIK PAULSEN, Minnesota
LEONARD LANCE, New Jersey

JEANNE M. ROSLANOWICK, *Staff Director and Chief Counsel*

CONTENTS

	Page
Hearing held on:	
June 19, 2009	1
Appendix:	
June 19, 2009	25

WITNESSES

FRIDAY, JUNE 19, 2009

Cardoza, Hon. Dennis, a Representative in Congress from the State of California	4
Costa, Hon. Jim, a Representative in Congress from the State of California	6
Johnson, Bill, Director, Alabama Department of Economic and Community Affairs, State of Alabama	11
Jones, Hon. Tommy, Mayor, City of Los Banos, California	9

APPENDIX

Prepared statements:	
Johnson, Bill	26
Jones, Hon Tommy	30

THE ECONOMIC DISASTER AREA ACT OF 2009

Friday, June 19, 2009

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 1:25 p.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Waters, Watt, Sherman, Moore of Kansas, Clay, Green, Kilroy, Peters, Maffei; Bachus, Biggert, Hensarling, McCarthy of California, Jenkins, and Lance.

Also present: Representatives Cardoza and Costa.

The CHAIRMAN. The hearing will come to order. Mr. Costa, would you take the witness stand right in front of you please? I'm sure Mr. Cardoza is on the way. I have explained to people that we had the very solemn process of an impeachment opening up. And so let me now officially begin this hearing. We are joined by the senior Republican, Mr. Bachus.

The economic crisis that confronts us is nationwide, but it obviously does not apply uniformly in the Nation. We are a very large country with differing patterns of economic activity. And there are places that have been hit unduly hard through no fault of their own. The part of California represented by our colleagues, Mr. Cardoza and Mr. Costa, has been hit as hard as any. And we believe, many of us, that it is entirely appropriate for us to recognize that we are one Nation and to reach out.

There are programs that subsidize public transportation in some parts of the country and other parts don't have it. There are programs that provide agricultural subsidies for crops that are not grown in much of the country. There are a variety of programs that help people in distress when there are natural disasters, we go to the aid of the people in that geographic region. We have, for the people in the areas represented by Representatives Cardoza and Costa, the equivalent of a prolonged national disaster in its economic impact, and we think it is appropriate of the Federal Government to respond.

So we have asked our colleagues to join us today because we are having a hearing on legislation which they have drafted and they prepared. And I can tell you that I have spoken with the Speaker of the House and with the Secretary of HUD and others. There was a wide recognition of the legitimacy of the points that our colleagues have made and this is the beginning of a process in which I hope there will be some response.

The gentleman from Alabama.

Mr. BACHUS. Thank you, Mr. Chairman, for holding today's hearing. And I welcome Congressman Cardoza and Congressman Costa, two very capable Members of the House, and look forward to your testimony. It is also a pleasure for me to welcome Mr. Bill Johnson, who will be testifying on our second panel of witnesses and welcome also back to the Financial Services Committee. We had the honor of his expert testimony last year at a Housing Committee hearing on the Gulf Coast Recovery Effort. Bill has an impressive record of service to the citizens of Alabama. In November 2005, Governor Riley appointed Bill as director of the Alabama Department of Economic and Community Affairs, ADECA. ADECA manages hundreds of millions of Federal grant dollars each year with some 230 employees. He also serves as the executive director of the Black Belt Action Committee, State alternative for the Appalachian Regional Commission, and State alternative to the Delta Regional Authority. We thank Bill for being here and look forward to his testimony.

The Economic Disaster Area Act of 2009 attempts to solve the problem of rising unemployment and mounting declines in home prices by calling on the Community Development Block Grant program, CDBG, to set aside funds for economic disaster areas. I certainly sympathize with my colleagues from California and their efforts to address the financial hardships in their congressional districts. And I know that they are sincere.

But I do have concerns that redirecting funds from the CDBG program may have unintended consequences for the overall program. CDBG funds are vital to the States. And finally, \$1 billion in CDBG funds were made available by this year's stimulus package. Unfortunately, expectations have not lined up with reality when it comes to getting stimulus funds out the door, and I know this is probably a problem in your districts as well as mine.

In Mr. Johnson's testimony, he describes a process for distributing stimulus funds and the time it takes for the money to actually go to work in the local economies. I did vote against the stimulus bill, because I truly believe there are better ways to stimulate our economy. With that said, I would like to commend officials back in Alabama, the Governor and Mr. Johnson and others, for providing a dedicated Web site with information about all the projects funded by the stimulus. And some of these will obviously be of help.

I think it is important for taxpayers to know how their stimulus funds are being used in real time.

So I thank Congressman Cardoza and Congressman Costa as well as Mr. Johnson for their testimony and look forward to hearing from them and our other witnesses.

The CHAIRMAN. The gentleman from California, a colleague of our two congressional witnesses, is recognized for 2 minutes.

Mr. SHERMAN. Thank you, Mr. Chairman. Thank you for holding this hearing. I have learned in my many conversations with Mr. Cardoza and Mr. Costa what is happening in our Central Valley. I would be aware of it without their input but they have brought it home to me in example after example. I don't know what is the right policy to do something about it. But I do know that what has hit the Central Valley and other parts of California and some other

parts of the country is every bit as great a disaster as the natural disasters that the Federal Government has responded to in the past.

So I especially thank the chairman for holding these hearings, and I yield back.

The CHAIRMAN. The gentleman from Texas for 3 minutes.

Mr. HENSARLING. Thank you, Mr. Chairman. Thank you for holding this hearing. I first want to commend my colleagues from California. I have no doubt that their particular districts have a lot of suffering, have a lot of human misery, and they are putting forth a public policy that they think is best to help their districts. I know it is a sincere effort. They should be commended for it. I do have a number of questions though about the approach and wonder if the approach of the legislation is indeed the best.

Number one, unfortunately, in this economy, I don't believe there is any one individual, one city, one county, or one company that has a monopoly on human misery. Throughout our entire economy, people are suffering. And although the unemployment rate in these communities are higher than the national average under this formula, I think the unemployment rate that really counts is the unemployment rate in your household, which doesn't necessarily know geographical boundaries. That is where I believe that assistance should most be focused.

We have to remember, I know this would enlarge the definition of who could apply for CDBG funds. I know that, at least initially, it doesn't perhaps add to the financial burden of the taxpayer. But as I look at history as my guide, the more people who qualify for the program, it is a matter of time before the expense of the program is going to go up. And I look around at \$700 billion spent for the initial bailout money, \$1.3 trillion for the stimulus plan, \$410 billion for the omnibus, and now we have a proposed health care plan that could cost \$1 trillion, and we are looking at a Federal debt that will increase three-fold, triple in 10 years, more Federal debt than created in the previous 220, and at what point do you get concerned that we are borrowing money from the Chinese, we are borrowing 46 cents on the dollar, and we are sending the bill to our children and our grandchildren.

I also wonder if all communities are created equal in the responsibility in which they undertake, some communities may have funded extra golf courses where some didn't. Should a frugal community have to subsidize a nonfrugal community?

Again, I think there are better ways to promote hope, jobs, and opportunity within our communities and within our country. I look forward to hearing the testimony of our witnesses and I yield back the balance of my time.

The CHAIRMAN. We will now begin with seniority as we do around here when there is no other reason to pick with our colleague from California, Mr. Cardoza, who has been a strong advocate for effective action, both nationally and particularly with the region he represents.

STATEMENT OF THE HONORABLE DENNIS CARDOZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. CARDOZA. Thank you, Mr. Chairman. As I begin today I would like to submit for the record two documents that detail some of the challenges that are faced by my district.

The CHAIRMAN. Without objection, all material that any of the witnesses wish to submit will be incorporated into the record.

Mr. CARDOZA. Thank you, Mr. Chairman.

Members of the committee, thank you for holding this hearing and for having me here today. Generally when people think of California, they think of Disneyland, the beach, Malibu, San Francisco, Yosemite National Park. The Central Valley of California and my district might be referred to as the "other California" where we have drought stricken farms and vacant homes. In place of movie stars and beaches, we have block after block of abandoned buildings. You see one of those subdivisions right here.

We are proud to grow more than half of the Nation's fruits and vegetables and tree nuts. Every house that can afford one still flies the American flag on the 4th of July. As many of you have heard me say repeatedly, my district in central California, in particular the communities such as Merced, Modesto, Stockton and you will soon hear from the mayor of Los Banos, need help. We needed help 6 months ago. We needed help 1 year ago.

What has been put forward to fix the rest of the country is not enough to help us back home.

Just this week, the Brookings Institute released a study that placed the three communities in or near my district among the bottom 10 weakest performing metro regions nationwide. What has become of our region of California is nothing short of an economic disaster. I am here to ask you—no—I am here to plead with you to provide the relief we desperately need. My constituents have lost their homes. They have lost their jobs. And they have lost their hope. They are looking to Washington and all of you for help. We need Federal assistance, and we need it now. When Hurricane Katrina devastated the Gulf Shore, our Nation watched in horror as victims lost their jobs and their homes.

Mr. Chairman, members of the committee, I have been saying for quite some time that the devastation in my district is very similar to that of Katrina, but was not caused by one extreme event over the course of a couple of days. In the Central Valley of California, we too have lost our jobs. We too have lost our homes. However, there has been no rescue operation. In fact, my constituents receive far fewer resources from the Federal Government than almost any region of our Nation.

Regardless of whether your property ends up on the front lawn due to a storm or to an eviction marshal, you are still homeless and your property is still in the front yard. Can you imagine your family is evicted from your home and your child looks up at you and asks, Daddy where are we going to stay tonight? And starts to cry when she sees her favorite baby doll thrown out on the sidewalk. It is happening every day where I come from.

Despite the collapsing economy and rising crime, higher poverty levels in my district, the Central Valley receives only half the na-

tional average of Federal dollars per capita. According to the Census Bureau, in 2008, the Federal Government disbursed an average of \$8,475 per person across the country. In my congressional district, we received less than half of that. In Merced County, the number is 47 per capita, Stanislaus County received 45, and San Joaquin County received 48. We can't cope with the situation that we have and not receive additional help.

I understand, Mr. Hensarling and others, that our entire Nation is hurting right now. I get it.

But the fact is, we are hurting much, much worse. When Federal Government disaster designations are declared, it is because the State and local governments cannot cope with the devastation that has been left in the wake. That is exactly the situation in our district. More than 13 percent of our mortgages remain in foreclosure, with 3 cities in my district having the 2nd, 4th, and 6th highest foreclosure rates in the country. Home values have plummeted 42 percent in my communities in the last year, the last 12 months, and nearly 70 percent since the high of 2005.

Despite the best efforts of the Obama Administration, our homes are so far underwater that we don't qualify for assistance. The 3 biggest cities in my district are in the top 11 nationwide for unemployment. My constituents, the ones who still have work, make 33 percent less than the average American worker. Small businesses and neighborhood restaurants which were once packed with customers are now empty and shuttered. Our longest-serving community bank was swept into the foreclosure crisis and closed. On top of that, my dairy farmers are in crisis and we have the worst drought in the country.

Chairman Frank, members of the committee, my district in the San Joaquin Valley is on the brink of falling off the map. I could stand before you and rattle off statistics all day, but we have entered them into the record instead. Every single economic indicator points in the same direction. California's Central Valley is in economic free fall and economic disaster, if you will.

In meeting after meeting, I have told my friends in Congress that the solutions we have been pursuing simply aren't working for areas like mine. Today I am presenting one of my ideas of providing additional assistance to those who need it most. And I am looking forward to hearing your suggestions for ways to improve this idea and help me get it passed into law so my communities and others like them around the country facing dismal unemployment rates and alarming foreclosure rates can get the help they need.

The bill we are discussing today seeks to create a permanent program within CDBG that would provide an additional safety net for the hardest-hit areas, cities and towns across the country use CDBG funds to rebuild communities, create economic development, provide housing to lower-income individuals. While in my district like others like it, more qualify as lower income communities than any place else. And now the local governments, and you will hear from Mr. Jones, are more cash strapped than ever. In his case, he is cut 50 percent of his budget. And in order for them to keep the doors open, they need help.

I am going to truncate my remarks and just say that we are looking for additional ways to fund CDBG money, not to cut other people's funds. We are trying to figure out ways to be creative in that. I am working with the chairman on those questions.

Mr. Chairman, my district will not overcome this overnight. It will take unprecedented action to help us rebuild and recover. But on behalf of my constituents and from the bottom of my heart personally, I want to thank you for the work that you have done and for the assistance and the advice that you have personally given to me. I am eternally grateful to you for holding this hearing. I look forward to hearing from my colleagues on ways we can improve this bill. And I look forward to working with you as we hopefully schedule a mark-up, maybe in July or when you can put it on your calendar. Thank you very much.

The CHAIRMAN. Thank you, Mr. Cardoza.

Mr. Costa.

STATEMENT OF THE HONORABLE JIM COSTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

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

I want to acknowledge the hard work that you and your staff have done, both the Majority and the Minority members and staff, to hold this legislation, this important legislation, for the San Joaquin Valley that includes Congressman Cardoza's district and mine and others that have been so impacted as a result of a combination of factors.

Clearly on the outset of your comments, both the ranking member and Mr. Chairman, you talked about the deep-felt recession around the country, and that is obviously clear to everyone. Every part of the country is suffering. But what you need to know that I think makes it a bit of a distinction in the case of the San Joaquin Valley, is three factors, a combination of 3 years of drought combined with the fact of a meltdown of the dairy industry and of housing foreclosures that have led the Nation compounded together have created a circumstance in which we have unemployment numbers that have gone from the single-digit levels a year ago to now it is 16 percent, 18 percent, 20 percent.

I have a city in my district, Mendota, that has the highest unemployment levels in the State, 42 percent unemployment; Fire Ball, 38 percent unemployment; Delano, the home of Cesar Chavez, with over 50,000 people and 4 high schools, has 34 percent unemployment. When one-third of the people in your communities and a similar number in your counties do not have jobs, that is depression numbers. We have moved from deep recession in the communities that Congressman Cardoza and I represent to depression unemployment numbers.

It is compounded because there are two major industries in the valley, in the wonderful San Joaquin Valley that we are so proud to represent. They are agriculture and housing, and they are both in the tank.

I am sad to tell you these illustrations point out part of the picture, and I have others that we could have brought of food lines. Because of the drought, some of the hardest working people you will ever meet in your life who would normally be working today

to put food on America's dinner table sadly are in food lines, the irony of that because there is no water, no water to grow food, without the ability to grow, we have no jobs.

This bill would provide the President with the ability to declare certain counties economic disaster areas. To be eligible, the counties should have high rates of both unemployment in the county and home value declines as Congressman Cardoza and your staff have worked on this legislation so well. These areas would be targeted for relief for job creation programs, economic development projects, rehabilitation of low-income housing units, helping to put people back to work and to revive local economies. Congressman Cardoza and I are here to fight for farmers and farm workers and the farm communities of the San Joaquin Valley.

The ranking member noted about the impacts of the CDBG funds. It is important to note that this legislation would not rob other communities of their allocated funds. We obviously are sensitive to the plights of this deep felt economic recession around the country. But it would supplement them when extenuating circumstances warrant this as in the cases of these communities and other communities I would add in Detroit and other places where it is similarly felt.

Economic disasters are no less devastating than a tornado, a flood, or an earthquake. But I will tell you what is frustrating for Congressman Cardoza and me. You see a tornado. It is television friendly. It is sad. It is awful. You see a hurricane as in New Orleans and people immediately see the disaster. A 3-year drought is not television friendly. People go, oh, well, you know, people are still there. Oh, yes, they are there, but they don't have jobs and the communities suffer.

This is a powerful tool if this committee passes this legislation for areas like ours where unemployment has shot through the roof, the ability to undertake pending projects, put people back to work, help them keep from losing their homes under the foreclosure rates that Congressman Cardoza stated. The Central Valley of California is not the only area that has been ravaged by this nationwide recession. But we have extenuating circumstances that we have described to you.

Counties in Michigan have also been severely impacted. But it is important to note that all of our regions throughout the country sometimes rely on one industry or another, and that is the case for the San Joaquin Valley with agriculture and housing. Local governments and State governments, particularly in California, we know are in the tank. They need additional support. And I think the Federal Government, just as I supported the efforts with Katrina, supported the efforts that have been devastated in the Midwest and otherwise, we want the same level of support for the communities that we represent.

This legislation clearly is not a silver bullet. We have to do a lot of other things. But it will go a long ways toward helping deal with the regional economic challenges that we not only find in our San Joaquin Valley, the farmers and farm workers and farm communities that we are fighting for, but also for economic challenges that are felt across the Nation.

Again, Mr. Chairman, and the ranking member, members of this committee, thank you, thank you again for your sensitivity, for your efforts to hold this hearing and to help us help people whom we represent as we deal throughout this great country of ours with the economic challenges that we face today.

I would like to ask for the record to enter a University of California Davis study that talks about and substantiates these impacts.

The CHAIRMAN. Without objection, everything will be put in. Thank you. I think we will excuse our colleagues now and call up our second panel, and we will have a chance to ask questions of them.

I say that because we have a chance to question our colleagues during the time. We may lose our ability to do this because of the impeachment so. Did you want to—

Mr. BACHUS. I would like to say something.

Let me say this, both Members, and I mean this sincerely, I am stunned by the testimony and by the mayor's testimony of Los Banos. I acknowledge upfront that most of our hurricanes and all of our tornadoes do not inflict this kind of damage on our communities. This is an unbelievable thing.

The CHAIRMAN. It is the long-lasting duration. It is the duration.

Mr. BACHUS. This is the perfect storm. And so I want to express to you, Devin Nunes, Congressman Nunes, with the diversion of 500,000 what is it, a tremendous amount of water, 500 acre feet of water, my gosh which has dried out part of the central valley, San Joaquin Valley, and both of you supported his amendment. And I will say that actually personally to me—had you voted against that, which caused an economic devastation there, and then you come out and ask for this, you know, I might have asked you about that. But you supported that. That is causing some tremendous problems. So I just want to commit to the chairman, now I don't know that it is this legislation, but I want to commit to both you gentlemen and to the chairman that this side of the aisle stands ready to work with you.

Mr. CARDOZA. Thank you.

Mr. BACHUS. I am not just saying that. I sincerely mean it.

Mr. CARDOZA. You always have, Mr. Bachus, and I appreciate the friendship and the collegiality you are extending. We wouldn't be here asking if it wasn't an absolute necessity. The Central Valley delegation has a tradition of working together across party lines to try and do the right thing for our districts and what we believe is the right thing for our country. And we embraced Mr. Nunes yesterday as we always do. In the valley, that is our culture, and we just want to get it right.

Mr. BACHUS. Property values dropping 55 percent is just incredible.

The CHAIRMAN. We want to move on to our witnesses, but I am impressed that Mr. Costa and Mr. Cardoza and Mr. Nunes have crossed party lines. Maybe one day they will cross ethnic lines as well.

Mr. COSTA. The Portuguese caucus.

The CHAIRMAN. Obrigado to my witnesses and we will call—

Mr. COSTA. Oh, muito obrigado.

Mr. CARDOZA. Muito obrigado.

The CHAIRMAN. We will ask Mr. Johnson to join Mayor Jones at the witness table.

We have, as mentioned, Mayor Jones of Los Banos, and Mr. Bill Johnson—who is here at the request the ranking member—who is the director of the Alabama Department of Economic and Community Affairs.

Let's begin with Mayor Jones.

**STATEMENT OF THE HONORABLE TOMMY JONES, MAYOR,
CITY OF LOS BANOS, CALIFORNIA**

Mr. JONES. Good afternoon, Chairman Frank, and members of the Financial Services Committee.

I thank Congressman Dennis Cardoza for asking me to come speak with you today because he is tired of my calling him asking him for assistance for my community.

Hello, I am Tommy Jones, mayor of Los Banos. For those of you who don't know where Los Banos is, we are the smallest town of 36,000 in the heart of central California. We are the small town that grew overnight to almost 3 times our size when residents in San Jose and the South Bay discovered we had affordable homes. We are the community that watched our home prices escalate to the point many of our hometown residents could not afford a house. We are the community that tried desperately to stay ahead of the curve of the boom, tried to charge the right fees so growth could pay for itself, and tried to anticipate the what-ifs of economic change. And today, we are the community that had made the LA Times, New York Times, Small Biz Magazine and Wall Street Journal because we are the hardest-hit community by this economic disaster.

One in every five homes in Los Banos is either in foreclosure, has been foreclosed upon, or is about to go into foreclosure. Our unemployment rate is over 21 percent. The foreclosure rate is so high that when we applied for COPS funding, the Federal office called to see if we had made a mistake on our application. We didn't.

We are small town America facing an extreme financial hardship, and as mayor and keeper of my City, I am here to ask for help. The Economic Disaster Declaration is a tool for cities like Los Banos who on the surface may appear healthy but in reality are suffering from an economic crisis as disastrous as Hurricane Katrina.

Let me see if I can paint you a picture of what it is like in our community. We sit in the middle of cotton and tomato fields. Up until 10 years ago, most of our residents were in one way or another connected to agriculture, education, or government. Today, a large portion of our community drives more than an hour or an hour-and-a-half to the South Bay to work. Since the bust in the economy, many of those drivers have been laid off and with those layoffs came the loss of their homes.

Loss of homes has meant an increase in our homeless; our homeless shelter now serves entire families two meals a day. Loss of homes has meant a steep decline in property and sales tax. Loss of sales has meant the closing of long-lived and new businesses in

and a decline in police and fire services because of a loss of tax revenue.

But it doesn't stop there. As I mentioned, we are an ag-based community. We are one of the communities faced with water shortages for our farmers. Water shortages mean less fields are planted. Less fields planted mean layoffs of farm laborers. Layoffs mean loss of homes. You see where I am going with this.

Our building construction community is now unemployed.

Our banks have stopped lending. Commercial projects are currently stalled because they cannot get additional bank lending, even those companies that have perfect credit and have been in business more than 10 years. As a City, we have no money to assist.

And I am still not done. Wednesday night, we were to approve our fiscal year budget. This year's budget was based upon a 35 percent reduction in property tax; 35 percent. This is on top of last year's decrease of 15 percent.

But here comes the kicker. Before the Council meeting started, we received word from the County of Merced that our property taxes had not dropped 35 percent as predicted, but an unprecedented 55.27 percent. That means our staff will have to cut an additional \$450,000 from the general fund.

We have already had to cut law enforcement and fire positions. We have laid off personnel to the point those still employed look frazzled from the workload. We have reduced services, supplies and stopped future projects because we were out of money, and now we have to try to find another \$450,000 in cuts.

Our sales taxes are down. We lost two car dealerships last year. Our property tax is 55 percent below what it was last year. One in every five homes is in foreclosure. Our unemployment rate is more than 21 percent. Our homeless population now includes complete families. We need your help.

Our community, our county, tends to get overlooked. We are rural. We are small. We are laid out between wetlands and ag lands. But our needs for our citizens are not any smaller than the needs of those who have faced hurricanes or floods. We cannot provide enough fire and police to protect our citizens, but we may not qualify for COPS funding because we don't have the same large crime statistics as cities like San Francisco, Oakland, or Chicago.

We have the highest foreclosure rate in the country but did not receive Federal stimulus dollars because of the HUD formula. Instead, we had to wait for the States's allocation, and I might add, we are still waiting.

This is why I am here, to plead, to beg, and to pray for the Economic Disaster Declaration legislation. We need help. And we need it now. Our businesses cannot qualify for loans even though they have been in business 10, 15, even 20 years.

CDBG funding given to our area because of our plight would provide them an opportunity to keep their doors open and stop the hemorrhage of unemployment. CDBG funding to assist people purchasing homes would help decrease the number of vacant neighborhoods and crime associated with those vacancies.

Please think about Los Banos when you look at this legislation and think again about our numbers; in just 2 years, a 70 percent

decrease in property tax; more than 21 percent unemployment rate; and 1 out of every 5 homes in foreclosure.

This Wednesday marked a day when our City had to face the fact that we have no place else to go. We have bottomed out. Without your help, without a tool such as the Economic Disaster Declaration, what will cities like Los Banos do?

I am Tommy Jones, mayor of Los Banos, and on behalf of my community, I am asking you to vote yes for this legislation. Please give our community a chance.

And let me close with this. The last election was probably the greatest election that I have considered in my lifetime, being a young boy who grew up in the South where going through back doors was common, been a young man coming from my second tour of Vietnam and coming home with my friends, and I was not allowed to go into the same place that they were. I know what it feels like to be a second class citizen. But the citizens of my community now are experiencing that. And they are begging and praying for your help. Thank you very much. Thank you so much.

[The prepared statement of Mayor Jones can be found on page 30 of the appendix.]

The CHAIRMAN. I invite our colleague, Mr. Cardoza, to join us, there being no objection, on the platform if he would.

STATEMENT OF BILL JOHNSON, DIRECTOR, ALABAMA DEPARTMENT OF ECONOMIC AND COMMUNITY AFFAIRS, STATE OF ALABAMA

Mr. JOHNSON. Mr. Chairman, Congressman Bachus, I want to thank you for the opportunity to be here today to speak on this economic disaster legislation relating to the Community Development Block Grant program.

I also want to thank Representative Cardoza for proposing it.

There is no question that the economic devastation that we are seeing in this country is unprecedented, and it is incumbent on us as Representatives of Federal Government, State government, and local government to look everywhere we can to try to find solutions for these very pressing problems that are facing our communities now.

As I hear the statistics that Mayor Jones and Representative Cardoza are relaying from California, I can't help but be astounded and shocked at the sheer depression that is hitting the area. And I want to say, my heart is out to you.

We have been fortunate in Alabama. We have had a number of industries locate and the pressure and the momentum of that has kept up our economy and our home prices somewhat, but we are not an island. Our folks are suffering, too.

In my position with this agency, the Department of Economic and Community Affairs, we represent, we have a number of funding streams that go out, and I am hearing, daily, continually, from constituents, homeless shelters, that their client base is going up, and their contributions are going down. Nonprofits, domestic violence shelters, the pressure of the stress from these financial situations is affecting our families and increasing domestic violence. There is virtually no segment of our society that is not touched by

this. And I want to say I appreciate your looking at trying to do everything we can to address this situation.

As recently as just before we walked in, Congressman Bachus and I were talking about a large homeless shelter housing over 300 women in Birmingham, the Lovelady Center; 40 children who live there, struggling to get by, may have to close the doors, trying to find additional money out there to help them to stay open. So really we are in very desperate times.

I want to reference also, I take the points that there has been a lot of help through CDBG for the disasters that have happened in other parts of the country. And we have benefited from some of those funds used that way. After Hurricane Ivan and Hurricane Katrina, we received supplemental Community Development Block Grant money. And we appreciate that.

I do however want to say that some 3 years after Katrina, we still have folks living in FEMA trailers, even though we received Community Development Block Grant funds to help build housing. And really what I want to share with you all today is not, you know, any for or against the Community Development Block Grant legislation here, but just some of the challenges with trying to solve problems with the Block Grant funds in general.

The Block Grant program, there has not been virtually any city or community or citizens of any community or city that have not benefited from this program over the decades it has been in existence. It is a program with a lot of safeguards in place. Very little of the money goes the wrong way.

The problem with that is there are also a lot of strings attached to it, a lot of onerous regulations that make the implementation of this program very hard to do and for short-term fixes. As I said, we still have, 3 years later, folks living in FEMA trailers. And we are still short \$100 million to having enough money to help everybody who was affected on the Coast. And so the challenge of trying to use the Block Grant program is one that I think, as you go down this path of trying to see what you can do to declare certain areas economic disasters and use this particular program to help folks, the main thing that I would ask that you focus on is how can you speed up the implementation of the program.

There are some requirements that, after doing this program for 6 years, I did not realize were imposed on us. I had an hour-long meeting with the State examiners yesterday because our folks apparently didn't fill in a box that even the examiners didn't know what the box was for, right on a Community Development Block Grant report. It is Form 60002. Whatever it is.

But this is one of the onerous regulations. It slows up. When you are asking for help, if this legislation gets passed, you are going to want to see something in 3 months or 6 months. Your folks are going to be expecting that, Mayor.

And I know after the hurricane, our folks were expecting it. And it is embarrassing 3 years later to still be trying to help folks with funds that are sitting in the bank and yet not be able to get out there and help people.

I literally, within the last 2 months, went down to the coast to Ms. Darlene Culpepper who is in a wheelchair because of diabetes, living in a FEMA trailer, you know, still sick from the fumes of the

FEMA trailer because we cannot get her help. So these are the challenges.

The block grant program, as I said, has been a tremendous asset for the citizens of this country. But it is designed for very large—well, what has happened over the years is, because of the onerous regulations, the investments have tended to go to very big water and sewer type projects where you have like a single project that it is easy to report on these different requirements.

When you start trying to use this program to do small projects, employ lots of people, it becomes very onerous to try to do this. Think about if you do a \$400,000 sewer project, it is easy to figure out what you need to report, how many employees, things like that. Think about trying to build a house on a small lot, one house; it is very onerous.

And if you can look at this as you are looking at this legislation, obviously your folks if this passes, they are going to want to see something happen very soon. And it is going to be very difficult and possibly embarrassing a couple of years later if we have not addressed these onerous regulations that hamstringing what I think this great program is.

I see that I am out of time, so, Mr. Chairman, I turn it back to you.

[The prepared statement of Mr. Johnson can be found on page 26 of the appendix.]

The CHAIRMAN. Thank you, Mr. Johnson, you did very concisely and sensibly sum up the dilemma.

On the one hand, we worry about abuse. And sometimes you can tighten it up too much. It is true that one of the great things about the CDBG program is there is always very little scandal connected with it when people talk about abuses. But it may well be that we have gone too far.

And I will say this, when I was first on this committee in 1981, 1983, the City of Fall River, Massachusetts, had gotten some flexibility in CDBG funding, letting them be much more flexible with City services. And they wanted that preserved. I offered to do that for a lot of the cities, and frankly, at that point, a lot of the city officials said, no, do not do that because we don't want to have more claimants. The more you open it up, the more people are going to come to us. So the City of Fall River, Massachusetts, continues to have written into the law at the time a degree of flexibility a lot of others don't.

So I very much agree with that. And it is not a free gift necessarily. But it is important.

I would also say to both of you this, I think when you are talking about housing, there are two levels at which you have to address this. One is aid to the municipalities. I know we say there are some partisan differences on this, and I know people talk about the niceness of tax cuts, but I first went to work in politics in 1967 in a campaign for mayor, and I have been watching it, and in 42 years, I have never seen a tax cut put out a fire. There is a level of public service that it seems to me we need to provide, and we have to be honest and say, at some point you have to come together and provide the revenue to do it. We don't want to put it on the deficit.

But in addition, there are some things we need to do, and it is at two levels, and again, Mr. Cardoza has been the leading advocate in Congress to make this point joined by Mr. Costa and others; it is the foreclosure crisis, and that requires us both to provide the kind of funding that would help the municipalities and the States meet public needs. But also we have to improve our ability to help people avoid foreclosure as long as individuals are losing their homes. And of course, it is not just the individual people who have said to us, well, why do you use public money to stop foreclosures? People made the loans; let them live with the consequences when people took out the money.

But as you point out, Mayor, the damage from foreclosure happens in concentric circles. The individual who loses the home is the first victim. But the neighborhood is a victim from having the vacant property, and the municipality because the property that used to pay taxes now eats taxes. You are going to send out the police and the fire and the water department and the sanitation department and the building department.

So what I am hoping to work on is a dual effort, one that provides some more resources to the governments but also to do more about forestalling foreclosure, because as people have noticed, we have another wave of foreclosures coming; people who took out conventional loans that were perfectly sensible and responsible and well documented when they took them out, but who are now encountering a degree and duration of unemployment that wasn't anticipated along with the drop in property values that keeps them from being able to refinance. So we are looking at a program that would provide some kind of temporary help to people whose problem is not that they can never pay that mortgage, but that they can't pay it while they are out of work. And that is another area that we are working on that I worked on with Mr. Cardoza.

That is really all I want to say. I have no questions. Usually you ask questions of people you disagree with. I don't disagree with you, so I have nothing to ask you.

Mr. Bachus.

Mr. BACHUS. I am going to ask two questions but not because I disagree with anything you have said.

The CHAIRMAN. Well, you are better at being agreeable than me.

Mr. BACHUS. Mayor Jones, I found your testimony very compelling.

And I thank you for coming to Washington to share your story and express the hardships your community is facing.

You mentioned you grew up in the South. My father was a contractor in Birmingham, Alabama. And one thing, when you hear the word Birmingham, Alabama, obviously, that carries some connotations. But I am proud of my father because he was the first, or one of the first contractors in Birmingham to step across the color line and hire black subcontractors. And his jobs were vandalized. But I can tell you that we have come a long way in Birmingham. And you know, we obviously as a country have come a long way. And I think last November was a testimony of that.

I appreciate you sharing your stories about the hardships of your communities, and it is nothing but a nightmare, I must say. Is Los

Banos eligible to receive moneys from the States CDBG program? And you testified you have not received those yet?

Mr. JONES. We are eligible. The problem came down—with the CDBG funds, we have received some. The problems with the home stabilization program was it had to be 15 percent below market value, where our property has already fell 75 percent. So imagine 15 percent, that meant the money we could not use it; we would have to end up sending the money back to the State. So being the worst-hit area in the complete country, we couldn't even use the money which it was mainly I think was meant to help.

Mr. BACHUS. That is a shame. And as I said, I would be glad to work with this committee and with your Congressman, and Congressmen Costa and Cardoza.

I appreciate both of you all bringing this to our attention.

Mr. JOHNSON, you mentioned Alabama has received \$7 million in stimulus. You mentioned that in your prepared remarks, but I think appropriately you responded, and I think in very good terms, about what they might face. What is the status of the money that Alabama is to receive? How much has been allocated?

Mr. JOHNSON. We have received all the applications for the CDBG stimulus funds. And we are in the process of posting the preliminary awardees. There is a period that, there is a public comment period, and then HUD will come back and either approve or disapprove the awardees. We are getting them out as fast as we can.

Mr. BACHUS. But it hasn't been distributed yet? It is not out there?

Mr. JOHNSON. No, sir.

Mr. BACHUS. I will yield any time I have left to Congressman Cardoza.

The CHAIRMAN. We will recognize our colleague from California now. It is only 5 minutes.

Mr. CARDOZA. I thank the chairman.

And I thank Mr. Bachus.

And I think I can't embellish any greater on what Mayor Jones has said, and I think the words of Mr. Johnson are incredibly applicable: When there is a natural disaster, and the whole premise behind the Federal Government acting is that State and local authorities don't have the resources to deal with the crisis, and so, we expect that money not only to eventually get there but to get there in a manner befitting the fact that this is a crisis and people need immediate help.

And we have to have safeguards, and those safeguards have to be put in place quickly enough that the purpose for expending the funds doesn't get lost.

In the Neighborhood Stabilization Fund money, first of all, Maxine, Congresswoman Waters, and this committee did a fabulous job trying to get those funds. They were important concepts.

And the reality is Merced County, the hardest-hit county, as you have heard, is still to receive those dollars. And so there have been challenges. We couldn't apply directly because we weren't big enough. And then the State application was rejected initially, and it had to be reworked.

And frankly, the allocations to our State were less than other States that had this issue. And the State action just got approved, and the money is still—the checks are still in the mail. And that is a year after this committee's work and intention to do this. And we can't let that happen if we do this program.

I thank Mr. Johnson for his testimony. He is dead on.

And thank you Mr. Bachus for bringing him up here to do it.

The CHAIRMAN. The gentleman from California, Mr. McCarthy.

Mr. MCCARTHY OF CALIFORNIA. I thank the chairman and I also want to thank Mr. Cardoza and Mr. Costa, because, Mr. Mayor, I come from just down the road from you. I represent Kern County which, we are all in the Central Valley together.

My district in Kern County has more than 15.9 percent unemployment as well. And what you talked about today is true. I was just on, before I was flying back last weekend, on the Yahoo page, and they had up there the top 10 cities that would recover the fastest and the top 10 cities that would have the slowest recovery. I was sad to see when you went to the lowest, they were all through the Valley, and we know the challenges that we have in housing, and I appreciate Mr. Cardoza bringing this bill forward. But we also have other challenges as well, and some of them come within the environmental aspect, especially when it comes to water, knowing Los Banos and the bread basket of America, people don't realize what this valley produces.

One, I would like if you could touch a little upon the flexibility that this bill would allow and the challenges you have, but also let's allow this Congress to understand that this is isn't our only challenge. We may get these houses back, but we have to have people able to live in them; that our double-digit unemployment, there are cities with 40 percent unemployment, that the idea that there are certain restrictions that shut those pumps off from pumping water. Not only does it hurt our valley; it will hurt this Nation when it comes to feeding this Nation and feeding the world. And we will dependent on other places, and the price will continue to rise.

But maybe as a mayor, you can touch on where the food banks are at, where the number of lines are showing up, where these people want to work in your city but because of manmade decisions we are not allowed to?

Mr. Mayor?

Mr. JONES. As I said, when you see the lines for the people, homeless people; during the day, I am a teacher. And when I see the kids come to me crying because they are put out of their houses. Their parents cannot work; they are unemployed. And then as we realize it is because of there is no rain, and there is no water, and they cannot plant crops.

These are the hardest-working people in our complete Nation. They are unemployed. Their kids come with no place to stay. Many of them are sleeping in cars with their families. That is how desperate the situation is.

And for water, we had a water march which we marched and we talked about just how desperate the situation is, how badly we need water. The farming community is dying. And that is the hard-

working people who are working who cannot get water. They cannot grow the crops.

The bad thing to look about this is, eventually, if we do not have a water master plan, if we cannot get water for the State to grow this food, will our food have to come from other countries? Will that food come in contaminated? How far will we go before we make a decision that it is very important to have our food grown in America?

If you think foreign oil is expensive, try foreign food.

Mr. MCCARTHY OF CALIFORNIA. I thank you, Mr. Mayor. I was just reading the headline where—many of you know where California is financially and one of the biggest deficits we have ever faced and the challenges where we had this special election, and we are going through that process.

And the Governor was recently in Fresno, another city within this valley. And he went to talk about the budget, and there were a number of mayors there, a number in the City, and they said, stop talking about the budget. Talk about our number one problem: the water, creation of lack of water, deteriorating the valley, the reason we have the high unemployment, the reason we have the housing and others.

So, one, I want to applaud Mr. Cardoza for his work not only on this but on the water issue as well and Mr. Costa, but Mr. Mayor, I appreciate you continuing to help educate as you move this bill and work on it.

Also, for people to buy that house, we have to have water to grow the fields. And it is a fundamental issue that throughout this Valley for this Congress to know that lots of times when people think of California, they think of San Francisco, Los Angeles, and San Diego. They do not realize the value of what is within the Central Valley and how far behind we are and the statistics that show we will come out of this later than the rest of this Nation. And a lot of this problem is done by manmade. If we can have a waiver when you talk about some environmental issues, and we can put people before fish, it would go a long way.

I yield back.

The CHAIRMAN. The gentlewoman from California.

Ms. WATERS. Thank you very much, Mr. Chairman. I thank you for basically the way that you pay attention to the Members and try and help work through their problems no matter how difficult they may be. I really appreciate that.

And for our witnesses who are here today, I thank you for the time that you are giving to deal with these, what almost seem intractable issues in your area. I am from California. I just met with Zoe Lofgren. We were on the telephone with John Burton and Roy Brown and some of the others, talking about, what can we do to bring more people together to talk about how we are going to deal with this \$25 billion budget?

We think that it is—we know it is an extremely difficult problem, and it is going to impact these areas even more. The cutbacks that are being anticipated are just awesome. And we are talking about, about 2 weeks out, when we won't be able to pay the bills and the salaries, etc, etc.

So I am particularly sympathetic to those areas which are in real economic disaster even before the negative impact of the budget is going to hit on those areas, and of course, the water problem has been mentioned here. That has been something that the Valley has been concerned about for a long time, and the need to come up with water policy in California that is going to serve the farm community, etc.

So all of these problems are very, very difficult. You have a Member of this legislature, of this House, who works full-time at trying to come up with answers. And that is what this Economic Disaster Area Act is all about, a creative way to try and deal with problems that we have not been able to impact with all of the work that we have done. We thought at one point that the Neighborhood Stabilization Act was going to be extremely helpful. We recognize the problem that you are confronted with, the size of the area that you are dealing with. And what we will do is continue to work with your Member and do everything that we can to deal with, not only the foreclosure disaster, the unemployment, all of that, that is confronting your area maybe in even harsher ways than it is in other areas. So, again, I see what the attempt is here. We understand it and the discussion about the use of CDBG. And I will work with Mr. Cardoza to do everything that we possibly can to lend some help.

Let me just ask before my time is up, Alabama, I remember that, while a lot of attention was on New Orleans and Mississippi, that Alabama was not being paid enough attention to. How are things going? Did you get your fair share of the CDBG money?

Mr. JOHNSON. I appreciate you asking that question, Representative Waters.

We are still struggling. We still have a lot of folks suffering in Alabama, and obviously most of the devastation happened in Mississippi and Louisiana. But I asked my staff right before I flew up here, how much were we short still for getting everybody, not better than they were but just back to even, you know, the low conditions they were in?

And we are still short \$100 million. I would like to respectfully ask, as you all move forward and consider, if it comes up in any way, as I have said, I visited folks just recently who are still living in FEMA trailers there, and we would greatly appreciate any assistance, we surely would.

Ms. WATERS. Mr. Chairman, I think we need to go back to the Gulf Coast. We need to go back to Mississippi, Louisiana, and Alabama and follow up on what has been done, and the money that we allocated, how it has been used, and that money that didn't get there yet, I think there may be still some resources that you, as you say, you know they are due to you, but we need to see what we can do to expedite it.

The CHAIRMAN. Will the gentlewoman yield?

I think we talked with Members on the other side of the aisle as well. There isn't any reason why FEMA should still be in the housing business years after a disaster. They are an emergency entity. HUD has the housing jurisdiction. And I have spoken to the chairman of the Committee on Homeland Security, Mr. Thompson, and the chairman of the Committee on Transportation, Mr. Ober-

star. We need to reallocate this so that at some point after an emergency, the housing agency steps in, and part of the problem is there aren't clear lines of authority there.

At this point, we have no questions here.

The gentleman from North Carolina just announced that within 10 or 15 minutes, we will have 4 votes on impeachment, and I do not think it would be reasonable to expect people to come back after that, so we will have a chance to do another 15 or 20 minutes of questioning, and that will probably end the hearing.

The gentleman from North Carolina.

Mr. WATT. Mr. Chairman, I won't take my entire 5 minutes. I just want to compliment Mr. Cardoza and Mr. Costa for bringing this matter before us, and express appreciation to the chairman for convening and accommodating Members who obviously are in distress and whose districts are in distress, not that all of our districts are not in distress, but there are relative degrees of distress.

The one question I had, Mayor Jones, was I heard Representative Cardoza say that the Community Stabilization monies are finally coming through or have wound their way through the process. What was the amount of those? And will those be able to be used to address any of the water concerns that have been raised here? How are you planning to use those?

Mr. JONES. Well, first of all, the amount for the Neighborhood Stabilization program was \$2.4 million. But the problem was it had to be 15 percent below market rate. And our values have lost so much, we find it almost impossible to use, and we will have to return the money. And we are probably the worst hit community in the complete Nation, and we will not even be able to use the funds with those rules.

Mr. WATT. You mean, it was designated? I am not sure I understand why you wouldn't be able to use it.

Mr. JONES. Because a stipulation was put on by the State that it had to only go to purchase homes that were 15 percent below market value. Our houses have fallen almost 70 percent in value already.

Mr. WATT. So that was a State stipulation. Okay. How would you address this water issue? I guess that would be the other—maybe I should be addressing that to Mr. Cardoza, whether there might be ways that we could work with him to pursue that, because it sounds like that might be a longer-term solution to really create jobs and create employment, whereas CDBG money might not serve that long-term purpose. It would serve a purpose, no question about that.

Mr. CARDOZA. Would—

Mr. WATT. I yield to the gentleman.

Mr. CARDOZA. I thank you, with the chairman's ability to let me take the yield here.

Mr. McCarthy has mentioned that there are a number of things that we are working through, and we need a dialogue to deal with it. We are working with Secretary Salazar. We are hopeful on those fronts. And yesterday on the Floor, we were attempting to deal with it one way. There are other ways we can work it, and we will pursue every avenue.

I think the reality, though, and the reason why we proposed the CDBG issue today is, without additional water, without court intervention, we are dealing with legal ramifications of Federal law. Without many different changes and without some direct assistance, there will be no way for us to get off the ground. And Mr. McCarthy is absolutely right; the new projections show us returning back to normal years after the rest of the country gets back on its feet.

Mr. WATT. Well, I will certainly continue to work with your Representatives, Mayor Jones, and be as supportive as I possibly can. We have been hit pretty hard in North Carolina, too, so I can—and I have some rural parts of my congressional district that are suffering, but I am not sure to the extent that you have described today.

So, Mr. Chairman, I yield back.

The CHAIRMAN. With the indulgence of the members, the gentleman from Michigan has been here from the start. And if there is another area of the country that has taken a very big hit, it is Michigan. So, with the members' indulgence, I am going to recognize our colleague from Michigan, Mr. Peters, for 5 minutes.

Mr. PETERS. Thank you, Mr. Chairman.

I appreciate you yielding the time.

And I would like to thank both Mayor Jones and Director Johnson for your testimony here today, and particularly thank Congressman Cardoza for your work on this bill. I couldn't agree with you more, that for many communities, communities that I represent as well in Michigan, the effect of this economic crisis is indeed just as disastrous as a flood or a hurricane.

Michigan has had one of the highest foreclosure rates in the country for years now, not a recent phenomenon but for many years, and the rate of foreclosure in the Detroit metropolitan area has been consistently in the top 10 in the Nation. However, unlike some other areas where the foreclosure rate is due primarily to a burst in the housing bubble or steep increases in housing prices, the foreclosure problem in Michigan has been primarily caused by very high levels of unemployment.

From May 2008 to May 2009, the State of Michigan has lost more than 300,000 jobs. And the unemployment rate now for the entire State is at 14.1 percent, the highest in the Nation. The University of Michigan economists have predicted that Oakland County, which I represent, is going to lose another 25,000 jobs this year. In fact, just about 3 weeks ago, we had the announcement from General Motors that 3 plants are being closed in my district, 7,000 jobs just in those 3 plants, not including the auto suppliers and all the other jobs.

So I know that this committee and the Obama Administration have come up with a number of very important housing programs to help homeowners who are facing foreclosure because of housing price declines, but I am worried that not enough is being done to help communities and families who are affected by the foreclosure crisis in places like Michigan where the biggest contributing factor is not subprime mortgages or balloons coming due but simply a lack of jobs. So that is why I am certainly very supportive of the

efforts of this bill and Mr. Cardoza's efforts to target more government assistance to those areas that need it most.

I do have some questions about the formula, if I could get Mr. Cardoza's attention, please. A formula in this bill is that while most congressional districts in Michigan would likely quality of life under the criteria that you have chosen, there are other districts in Midwestern States, like Ohio, Indiana, and Illinois, that may not benefit despite the fact that they have also been impacted a great deal as a result of dislocation in this economy and rising unemployment rates. They have lost jobs, and foreclosure rates are in the top 10.

Is there any effort to refine some of those criteria? And certainly I would like to work very closely with your office in refining some of the criteria to make sure areas in the Midwest, like Michigan, that may have had a longer experience of decline in housing prices and not the steep drop, but nevertheless they are suffering a great deal, would qualify?

Mr. CARDOZA. If the chairman would let me respond?

The CHAIRMAN. Absolutely.

Mr. CARDOZA. I totally agree with the gentleman. And my purpose today, we purposefully labeled it a discussion draft because, frankly, we don't know the best way to do this.

We want to include the communities that need to be included. Certainly, we don't want this to become a grab bag, but we want it to be focused on the areas that are most in distress. And yet, we wanted to get—because I don't want other areas to be like ours that have been waiting for 3 years to get the recognition.

And so we have not come up with the perfect method to allocate the dollars, and we really leave that—we had to put something in the bill to start the discussion, but I am going to leave it to the chairman and this committee to figure that out, because these are tough challenges and money is finite around here. So I thank the gentleman for his question.

Mr. PETERS. Thank you for the response. I look forward to working with you.

And, Mr. Chairman, as we refine some of the criteria, I appreciate that effort.

The CHAIRMAN. The gentleman from California, it was his idea. We all have a lot of ongoing responsibilities. Our staff was glad to work with him, and this needs some further refinement. We will need a decision at some point from somebody as to what resources are available, and then once we know that, we will try to divide them up.

I have said, and I have mentioned it to others, that one potential source for some help here, we are getting TARP funds repaid at a faster rate and in more dollars than we thought. We are getting a profit on the TARP funds to some extent from interest and dividends, and I am exploring what we might do to deal with that. And I think there is some economic justice in taking the money that originally went to keep the banks functioning and dealing with some of the problems that the banks caused.

Let me just say, at this point, I think we will be able to accommodate our other three members when the vote starts. We will try

to do that, if everybody sticks to 5 minutes. The gentleman from Kansas.

Mr. MOORE OF KANSAS. Thank you, Mr. Chairman.

I will be very brief. And I apologize to the Chair, to the members, and to the witnesses for being tardy in getting here. But I have read the statements of the witnesses, and I certainly agree with my colleague who talked about not only the situation we are facing in our country, but in California, Alabama, and Michigan, there has certainly been a disproportionate share of suffering there as a result of some of what has happened.

And I will just say that I want to work with my colleagues, too, to make sure that the people who have suffered mightily receive some additional help, because the unemployment rates, the foreclosure rates that you all have talked about, are something that is not sustainable. So we need to make sure that we take care of the people who suffered the very worst in our whole country, but the people—additional help for those folks who have suffered the worst. And I am going to, Mr. Chairman, with your permission yield back my time to the other members who were here and heard the testimony of the witnesses.

The CHAIRMAN. I thank the gentleman.

The gentleman from Texas, and then we will get to the gentlewoman from Ohio.

Mr. GREEN. Thank you, Mr. Chairman. And I will probably yield back time as well.

I want to apologize for my late arrival. I have been in Homeland Security, and we have had a markup all day today.

I support the concept of an economic disaster area. I think that it provides us an opportunity to focus on giving to areas of the country that are in dire straits. There may be some things that we need to do to tweak it, but the concept seems to be pretty sound. We know that there are people who need help. This becomes a vehicle by which we can accord the help that is needed. So if we need to tweak it, I say, let's tweak it. But I don't think we should abandon the concept. And I yield back the balance of my time.

The CHAIRMAN. The gentlewoman from Ohio.

Ms. KILROY. Thank you, Mr. Chairman.

And thank you, Mr. Cardoza, for putting this issue before us. I also want to thank the witnesses for taking your time to travel here to present the information, to let those of us from other parts of the country understand what is going on in your world.

I am from Ohio, and like the gentleman from Michigan, Ohio also has experienced a decline. But unlike maybe different from the sun coast or the central coast, or not caused by a hurricane, not caused by boom or bust, but really a longer and slower but nevertheless very significant decline, decline in jobs from the steel industry from a number of years back, now being hit hard with the auto industry. And, frankly, a migration in many instances of people leaving the State in search of other opportunities and a high unemployment rate and, in my community, an extremely high rate of foreclosure. Communities like Cuyahoga County, the City of Cleveland, home prices are incredibly low. And foreclosed properties are bringing down that; we are in that concentric circle problem that the chairman described.

So I am glad that we are thinking about this and trying to figure out what the best vehicle is to provide help to the communities that need it. And I am glad that you helped me understand what is going on in your community.

I yield back.

The CHAIRMAN. I thank all the members. We are taking this seriously. We have a money problem, and that is why I mentioned taxes before. The problem we have is there are a lot of good reasons. To spend some of the money makes people nervous. Raising the deficit makes people nervous. We are in the classic dilemma here which was first expressed to me 40 years ago by an older politician in Boston who was surprised at my naivete of what I thought was an inconsistency. And he said, "Hey, kid, ain't you heard the news? Everybody wants to go to heaven, but nobody wants to die." Spending the money is going to heaven; finding it is dying. But we are going to make a serious effort to do this. There is TARP money. There are other sources of funds.

The gentleman from Alabama correctly pointed out, we are talking about something of limited duration. My sense would be, and it is certainly the hope, and there are problems with those parts of the country that may get it slower but that, by the end of 2010, we should be looking back on this. So we are probably talking about something of the duration of less than 2 years. And, as I said, it has two components: as aid to those areas of government that have a problem; and as aid to the individuals in the foreclosure, as Mr. Peters and others mentioned. We will try. We will be working on trying to see if there is an allocation we can work with. Mr. Cardoza and others have taken that issue. The gentleman from Alabama was being very forthcoming in his bipartisanship here. And I think you will have a sincere effort.

And let me just say this to you, that I counted about 15 members who were in and out. It is Friday afternoon, and we have other things to do, but I will tell both witnesses you have not wasted your time by being here, and there are staff members here as well. You have made an impact, and I promise you that there will be some serious follow-up.

The gentleman from Alabama.

Mr. BACHUS. I would like to make two points. One is that, as we do this, if as we expand that definition or the criteria and make it more inclusive, it actually will diffuse it more. And so sometimes I think it is more practical to concentrate it.

The CHAIRMAN. If the gentleman would yield, it will take some constraint. Nobody in America is dancing these days about the economy, but I think it is going to be incumbent on some of us to recognize that some places are hit much harder than others and hold back and defer.

Mr. BACHUS. Particularly when, in this situation, you have a whole valley, and it is a drought, and it is a series of things.

And, second, I will say, I think this is somewhat analogous to when we all were on TV, and we saw New Orleans and what was happening. We felt, my gosh, you know, that can't happen here. In this, you know, unfortunately for you, the TV cameras are not trained there every day. I think if they were, people would be demanding a solution.

The CHAIRMAN. With that, the hearing is adjourned.
[Whereupon, at 2:44 p.m., the hearing was adjourned.]

A P P E N D I X

June 19, 2009

Testimony of Bill Johnson to the
Committee on Financial Services

on the

“Economic Disaster Area Act of 2009”



June 19, 2009

OFFICE OF THE GOVERNOR

Bob Riley
GOVERNOR

State of Alabama

ALABAMA DEPARTMENT OF ECONOMIC
AND COMMUNITY AFFAIRS**Bill Johnson**
DIRECTOR

June 18, 2009

The Honorable Barney Frank
 Chairman, Financial Services Committee
 U.S. House of Representatives
 2129 Rayburn House Office Building
 Washington, D.C. 20515

Dear Chairman Frank:

On behalf of Governor Bob Riley, I bring greetings. I want to thank you and the Committee for providing me the opportunity to testify at this hearing concerning our opinion of the discussion draft of the "Economic Disaster Area Act of 2009." At the outset, I want to commend the Chairman and the Committee for taking the initiative to address hardships and difficulties experienced by many of the nation's cities and communities related to high unemployment and declining home values.

We believe the President and Congress have provided timely leadership and a large amount of financial resources through the American Recovery and Reinvestment Act of 2009. We believe we will soon begin to see the benefit of this large investment in various sectors of the nation's economy. With this will come greater optimism, growth in private investment, and increased employment. The energy, automobile, and financial sectors will once again provide a challenging and exciting opportunity for American ingenuity to flourish.

More specifically about the CDBG program:

- CDBG has lost significant ground over the last several years. In 1982, Alabama received approximately \$32 million; this year we will receive approximately \$26 million. Factoring the lost value of money, we are at about 40 percent of the funds we received in 1982. Therefore, rather than creating an additional category of entitlement communities based on the unemployment rate and decline in home values, the CDBG allocation should be increased to such a level communities that are hurting will understandably benefit.
- The CDBG program has provided much needed improvements to accommodate the needs of low and moderate income households. However, even as the CDBG fund has been declining for many years, the aging of infrastructure has

The Honorable Barney Frank
Page 2

created a significant rise in need for additional resources. ADECA compiled a list of \$5 billion worth of projects in anticipation of stimulus funds. We received only \$7 million.

- The Federal requirements and HUD's handling and oversight of requirements involving fair housing and equal opportunity, labor standards, and the environmental process have made the program slow and cumbersome to implement. After over three years attempting to recover from damages left in the wake of Hurricane Katrina, Alabama is still struggling to complete disaster projects. Congress has often asked, and rightly so, about the slow expenditure rate for the CDBG program. While the myriad laws and regulations are well intentioned, their implementation processes have effectively eliminated room for the application of common sense. Sadly, while the CDBG program has a perfect format to address a variety of community needs, the difficulty in timely implementation of these activities make it less than an ideal program to help communities with high unemployment and declining home values.
- While the high unemployment rate is clearly hurting some areas more than others, the job creation requirements under the CDBG program are extremely onerous. The creation of the right climate for job growth will require investment in infrastructure, retraining of employees and appropriate education initiatives. While these can be challenging CDBG activities, they are not easily implemented within a short time span.
- The long-term goal of the nation should be to rebuild aging and crumbling infrastructure and build new infrastructure to accommodate the needs of the 21st Century. To this end, the CDBG program is well suited to play an appropriate role.
- Affordable housing is one of the nation's most critical needs, and likewise, CDBG can play a significant role. CDBG assistance can provide the infrastructure necessary to support construction of affordable housing as well as breathe new life into aging housing through rehabilitation activities.
- Specifically in Alabama, Hurricane Katrina caused wide-spread damage in the coastal communities. While approximately \$96 million in CDBG disaster assistance has helped to rebuild much of the infrastructure and housing and brought some normalcy to the lives of residents, affordable housing continues to remain the single most pressing need affecting disaster impacted households. In our estimation, the State of Alabama needs \$100 million to fully address the affordable housing needs of Katrina victims.
- The quickest and the most effective way the Congress can address the need of cities and communities hurt by high unemployment and declining home values is

The Honorable Barney Frank
Page 3

by increasing the CDBG appropriation and providing added amounts to communities meeting certain thresholds. The Congress should define certain broad goals for the expenditure of added money and leave as much as possible to the ingenuity of the cities and communities to address their hardships. The federal agencies should be empowered and challenged to refrain from creating new, burdensome, and bureaucratic rules that have the effect of encumbering and slowing the program implementation.

In summary, while the Community Development Block Grant program could provide the right platform to address the hardships of cities and communities suffering from high unemployment and declining home values, the implementation rules are burdened with time consuming bureaucratic processes involving fair housing and equal opportunity, labor standards, environmental clearances and a host of other requirements. Congress certainly has the ability to waive many if not all of these requirements, and make expediency, efficiency and effectiveness the primary requirements.

Finally, on behalf of Governor Bob Riley, I want to again thank you and the Committee for giving the State of Alabama an opportunity to present its' views related to draft "Economic Disaster Area Act of 2009."

Sincerely,



Bill Johnson
Director

BJ:SAO:pg

Good afternoon Chairman Frank and Financial Services Committee Members

I think Congressman Dennis Cardoza asked me to come speak with you today because he is tired of my calling him asking for assistance for my community. Hello, I am the Tommy Jones, Mayor of Los Banos; for those of you who don't know where Los Banos is, we are the small town of 36,000 in the heart of Central California. We are the small town that grew overnight to almost three times our size when residents in San Jose and the south bay discovered we had affordable homes. We are the community that watched our home prices escalate to the point many of our home grown residents could not afford a house. We are the community that tried desperately to stay ahead of the curve of the boom, tried to charge the right fees so growth could pay for itself, and tried to anticipate the what if's of economic change. And today we are the community that has made the LA Times, New York Times, Small Biz Magazine and Wall Street Journal because we are the hardest hit by this economic disaster.

One in every five homes in Los Banos is either in foreclosure, has been foreclosed upon, or is about to go into foreclosure. Our unemployment rate is over 21%!!! The foreclosure rate is so high that when we applied for COPS funding the federal office called to see if we had made a mistake on our application!

We are small town America facing an extreme financial hardship and as Mayor and keeper of my city, I am here to ask for your help. The Economic Disaster Declaration is a tool for cities like Los Banos who on the surface may appear healthy, but in reality are suffering from an economic crisis as disastrous as Hurricane Katrina. Let me see if I can paint you a picture of what it is like in our community. We sit in the middle of cotton and tomato fields. Up until 10 years ago most of our residents were in one way or another connected to agriculture, education or government. Today a large portion of our community drives more than an hour and a half to the south bay to work. Since the bust in the economy many of those drivers have been laid off and with those layoffs

came the loss of their homes. Loss of homes has meant an increase in our homeless – our homeless shelter now serves entire families two meals a day. Loss of homes has meant a steep decline in property and sales tax. Loss of sales has meant the closing of long lived and new businesses and a decline in police and fire service because of a loss of tax revenue.

But it doesn't stop there. As I mentioned, we are an ag based community. We are one of the communities faced with water shortages for our farmers. Water shortages means less fields are planted. Less fields planted means layoffs of farm laborers. Layoffs mean loss of homes... you see where I am going with this.

Our building construction community is now unemployed.

Our banks have stopped lending. Commercial projects are currently stalled because they cannot get additional bank lending – even those companies that have perfect credit and been in business more than 10 years! As a city we have no money to assist.

And I am still not done. Wednesday night we were to approve our fiscal year budget. This year's budget was based upon a 35 percent reduction in property tax. Thirty Five Percent!! This is on top of last year's decrease of 15%. But here comes the kicker, before the council meeting started we received word from the County of Merced that our property taxes had not dropped 35% as predicted, but an unprecedented 55.27%!!! That means our staff will have to cut an additional \$450,000 from the general fund! We have already had to cut law enforcement and fire positions, we have laid off personnel to the point those still employed look frazzled from the workload. We have reduced services, supplies, and stopped future projects because we were out of money and now we have to try and find another \$450,000 in cuts??? Our sales tax are down – we lost two car dealerships last year. Our property tax is 55% below what it was last year – one in every five homes a foreclosure. Our unemployment rate is more than 21%!!! Our homeless population now includes complete families. We need your help!

Our community, our county, tends to get overlooked. We are rural. We are small. We are laid out between wetlands and ag land. But our need for our citizens is not any smaller than the needs of those who have faced hurricanes or floods! We cannot provide enough fire and police to protect our citizens but we may not qualify for COPs funding because we don't have the same large crime statistics as cities like San Francisco, Oakland or Chicago! We have the highest foreclosure rate in the country but did not receive federal stimulus dollars because of HUD's formula. Instead we had to wait for the state's allocation and, I might add, we are still waiting!

This is why I am here to plead for the Economic Disaster Declaration legislation. We need help and we need it now. Our businesses cannot qualify for loans even though they've been in business 10, 15, even 20 years. CDBG funding given to our area because of our plight would provide them an opportunity to keep their doors open and stop the hemorrhage of unemployment. CDBG funding to assist people purchasing homes would help decrease the number of vacant neighborhoods and crime associated with those vacancies. Please think about Los Banos when you look at this legislation and think again about our numbers; in just two years a 70% decrease in property tax, more than 21% unemployment rate, and 1 in every five homes a foreclosure. This Wednesday marked a day when our city had to face the fact that we have no place else to go. We have bottomed out. Without your help, without a tool such as the Economic Disaster Declaration, what will cities like Los Banos do? I am Tommy Jones, Mayor of Los Banos, and on behalf of my community I am asking you to vote yes for this legislation. Please give our community a chance.