

**STRENGTHENING AMERICA'S COMMUNITIES:
A REVIEW OF THE PRESIDENT'S FY 2006
BUDGET INITIATIVE**

HEARING
BEFORE THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
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CONTENTS

	Page
Hearing held on:	
April 6, 2005	1
Appendix:	
April 6, 2005	45

WITNESSES

WEDNESDAY, APRIL 6, 2005

Gutierrez, Hon. Carlos M., Secretary, United States Department of Commerce	7
Jackson, Hon. Alphonso, Secretary, United States Department of Housing and Urban Development	8

APPENDIX

Prepared statements:	
Oxley, Hon. Michael G.	46
Cleaver, Hon. Emanuel	48
Gillmor, Hon. Paul E.	50
Hinojosa, Hon. Rubén (with attachments)	51
Matheson, Hon. Jim	60
Gutierrez, Hon. Carlos M.	62
Jackson, Hon. Alphonso	70
Johnson, Clay III	73

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Frank, Hon. Barney:	
National Association of Housing and Redevelopment Officials, prepared statement	76
National Association of Federal Credit Unions, prepared statement	79
Community Development Financial Institutions Coalition, prepared statement	80
Gutierrez, Hon. Carlos M.:	
Written response to questions from Hon. Steve Pearce	84
Jackson, Hon. Alphonso:	
Written response to questions from Hon. Steve Pearce	88
Johnson, Clay III:	
Written response to questions from Hon. Steve Pearce	89
U.S. Conference of mayors, National Association of Counties, National League of Cities, National Association of Local Housing Finance Agencies, National Association for County Community and Economic Development, National Community Development Association, National Association of Housing and Redevelopment Officials, Council of State Community Development Agencies, prepared statement	90

**STRENGTHENING AMERICA'S COMMUNITIES:
A REVIEW OF THE PRESIDENT'S FY 2006
BUDGET INITIATIVE**

Wednesday, April 6, 2005

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

The committee met, pursuant to call, at 1:12 p.m., in Room 2128, Rayburn House Office Building, Hon. Michael Oxley [chairman of the committee] presiding.

Present: Representatives Oxley, Baker, Pryce, Bachus, Castle, Ney, Kelly, Shays, Miller of California, Tiberi, Kennedy, Hensarling, Garrett, Harris, Pearce, Fitzpatrick, Davis of Kentucky, Frank, Kanjorski, Sanders, Velazquez, Watt, Meeks, Lee, Moore of Kansas, Capuano, Crowley, Clay, McCarthy, Baca, Matheson, Scott, Davis of Alabama, Green, Cleaver, Wasserman Schultz, and Moore of Wisconsin.

Chairman OXLEY. The committee will come to order.

Pursuant to rule 3(f)(2) of the rules of the Committee on Financial Services for the 109th Congress, the Chair announces that he will limit recognition for opening statements to the Chair, Ranking Member of the full committee, and the Chair and Ranking Minority Member of the Subcommittee on Housing and Community Opportunity or their respective designees, to a period not to exceed 16 minutes, evenly divided between the majority and minority. Prepared statements of all members will be included in the record.

The Chair recognizes himself for the purpose of giving an opening statement.

Today, the Financial Services Committee welcomes the Secretary of the Department of Commerce, Carlos M. Gutierrez and the Secretary of Housing and Urban Development Alphonso Jackson, to discuss the President's initiative to overhaul the way the federal government funds and administers community and economic development.

The Strengthening America's Communities proposed in the President's fiscal year 2006 budget proposal is a new \$3.7 billion program which seeks to reorganize and consolidate this nation's community and economic development initiatives into a new program under the direction of the Department of Commerce.

In addition to consolidating these programs under the Department of Commerce, the President's proposal establishes strong accountability standards and a more flexible use of funds so that the communities most in need will be assisted.

Currently, there are more than 35 federal programs in seven agencies that provide some \$16 billion in grants, loans, and tax incentives to encourage community development and economic revitalization. The administration maintains that some of these 35 programs duplicate and overlap one another, have few accountability standards, and have inconsistent criteria for eligibility.

By streamlining the process and consolidating these programs, the administration believes that federal funds marked for community development efforts can be more accurately targeted and used.

I applaud the administration's stated goal of creating a more targeted and unified program with stronger accountability standards and more flexibility. In addition, I support targeting funding to high-poverty areas in an effort to make a concrete difference in distressed areas.

Yet, there are still many unanswered questions regarding the President's new initiative. We have scheduled this hearing today in an effort to learn more of the specifics regarding the President's new proposal and in hopes of gaining a clearer picture of just how this new proposal will continue the goals of community development for our distressed communities.

On March 2, this committee held a hearing on the President's fiscal year 2006 budget proposal. As Secretary Jackson will remember, much of the discussion at that hearing centered on the President's new Strengthening America's Communities Initiative. Questions were raised on how this new program would be structured, whether the Department of Commerce has the infrastructure and tools necessary to adequately assess the community development and housing affordability needs in communities across the country, and how the 35 programs will collapse into grant programs that will continue to meet the community development needs across the country.

I know that many here today are anxious to learn more about the President's bold new initiative. Many of us on this committee and in this Congress are hearing daily from constituents back home that have first-hand knowledge of how important programs such as the CDBG program are to their communities. They are asking questions and raising concerns about this new program initiative and whether it can continue to meet the critical economic and developmental needs of our communities.

We trust that you will address many of those questions here today and that we will be able to work together in the months ahead to address your concerns for federal initiatives that not only meet strong accountability standards and allow for greater flexibility, but also continue to promote homeownership, community development and economic opportunity in our communities across the country.

I now recognize the Ranking Member, the gentleman from Massachusetts, Mr. Frank.

Mr. FRANK. Thank you, Mr. Chairman. You and I often are in agreement on some of the ways we approach things, but I do want to disagree at the outset with your expressed wish that we would learn more about this.

I think I speak for a very large number of people in the Congress and the country in saying the less we hear about this in the future,

the better. I do not think when this sinks finally beneath the sea that it will be greatly mourned. In fact, it is hard to take it seriously.

We have been told that we should do a major rewrite of a number of very important social programs. It is now April and we have seen no specifics, not even general concepts. There is no legislation. Presumably, this is to take effect by October 1 of the next fiscal year. I do not know when we are going to see anything. I have to say that this approach, this program is at such a level of generality that it makes the President's Social Security approach look like a detailed, micro-managed piece of specifics.

I think what happened is this: The President has, with the support of the majority, reduced taxes very substantially while we were fighting a couple of wars and ramping up homeland security. He then announced that he wanted to reduce the deficit, to cut it in half. I do not think that there is any realistic chance of that happening while he maintains his tax cuts, but he had to make good on his promise. So he has sent to the Congress in his budget a number of proposals for substantial reductions in programs that no one, with the possible exception of himself, takes seriously, and I do not think he does either. Nobody thinks these things are really going to happen. I regret the fact that they are so distracting.

I should express my gratitude to the administration. Let me say, I hope no one here will begrudge the time we have spent on this hearing because in fact, thanks to this proposal, this committee saved some time. We had a meeting that we would have had to do and we did not do it because of this proposal. In past years, we have voted as a committee on our recommendations to the Budget Committee on the President's budget. This year, we did not have such a meeting. I believe we did not because a number of people on that side did not want to have to vote on this thing and vote against it, and they did not want to have to vote for it. So we did not have the meeting. So we are grateful to you for saving us the time.

With regard to this program, I have rarely encountered as wide a reaction from a considerable range of people in opposition to this. Of course, it is not just CDBG that is involved here. There are other programs, not all of which are in our jurisdiction, but the Community Development Financial Institution program is in our jurisdiction. That has been very important for banks seeking to meet their CRA requirements. It has almost universally been opposed.

In particular, what is troubling to me, let me close with this. We have in this country a severe housing crisis in many areas. We have a problem with housing being too expensive. The CDBG program as it is currently structured is available to be used in housing. Taking it down financially and consolidating it and putting it in Commerce appears to mean that it goes out of the housing business. The last thing we need is one more detraction from our ability to deal with housing.

I said that was a final point. There is one other one. That is a philosophical one. Part of the argument is that you will not miss the money that we are cutting out of this program or this set of programs, and there will be substantial reductions because they

have been consolidated. We do not know which program gets hit the worst yet, but there are substantial reductions. We are not talking about limiting growth. We are talking about actual reductions.

But we are told we will spend it only in the poorest areas and that will make up for it. The problem with that is that I had hoped we would have as a goal allowing poor people to live other than in the poorest areas. De-concentration of the poor, which also means breaking up racial concentrations, ought to be an important piece of public policy.

One of the things that happens, for instance, in a community where I live, the city of Newton, Massachusetts, which is not overall a poor community, but has low-income people. They use their CDBG funds to help build housing that is affordable in a community that is somewhat wealthier. By your standards, that would disappear. Our ability to give poor people a chance to move out of the poorest area would disappear.

So this argument that it is a virtue to spend money on low-income people only in the poorest areas is a very insidious one. I do not think it was intended that way, but that is the effect, because it undercuts completely our efforts to integrate racially and to de-concentrate economically. So what you see as a virtue I see as a problem.

We often push—and HUD has talked about this—about trying to get communities to accept low-income housing, not to have it focused. Well, when you take away the money that they use to do that, you make a mockery of the argument that they ought to locate that housing. Many communities use CDBG for that purpose. If HUD wanted to increase the pressure on them to do that, I would be more supportive, but in its current form this proposal makes very little sense.

I would in closing say this is clearly something far too substantive for the Appropriations Committee to be dealing with in the sense that it is legislative. I hope we will be assured that nothing is going to happen here unless this committee gets a chance to have a markup and a vote. I find it hard to believe it would survive.

Chairman OXLEY. The gentleman's time has expired.

The gentleman from Ohio, Chairman of the Housing Subcommittee.

Mr. NEY. Thank you. There are several gentlemen from Ohio on the committee, so that is why I kind of hesitated, Mr. Chairman.

Thank you, Mr. Chairman.

Mr. Shays notes there is only one gentleman from Ohio, though he did not say who.

[Laughter.]

Thank you, Mr. Chairman, for holding this important hearing. I would like to again thank today's witnesses. We worked with both agencies and also both individuals, although Mr. Gutierrez is relatively new. Already his department has helped us with the steelworkers and many tens of thousands of steelworkers and their families appreciate what has been done in the past and also what is being currently done through your department in working with Mr. Palmer and others. Thank you.

Of course, Secretary Jackson, we worked countless times. We have also been fortunate to have you in our state several times doing some good things.

The budget the Chairman has talked about CDBG, and the Ranking Member, I think that, of course, from my point of view raises some interesting and some serious questions about what role community development should play in helping our communities. Of course, there would be the consolidation.

The question I raised before, actually, and noted with Secretary Jackson when he was here, and will also do with you, Secretary Gutierrez, is I applaud the administration's goal of creating a stronger, more unified community and also keeping that focus on the areas that have higher poverty rates, obviously. We want to make the areas that have not done as well come up to better conditions. But within that context, I have had serious concerns because I am afraid if you take a program and you move it, a program that has had certain flexibilities, and this is the question I just pose out there to contemplate. This is why I have opposed moving it, publicly. But if you move it over into Commerce, would it then take on a life of its own in the sense of it would adhere to certain rules within the Department of Commerce? The structure would change. Now, I would caution, if you say, well, the structure will not change, then I would say then why move it?

So those are kind of the two things that I would just pose out there about this issue because it is important. Again, when it comes to HUD, I know it has its challenges to ensure an effective community development program and to implement some of the accountability measures. But a lot of the tools that are used within this program as it is currently set up are so critical to communities across this nation. I would tell you, we have had a huge outpouring of opinions on this issue.

So welcome, both of you. I look forward to working with both of your departments. Again, I thank both of you, off this issue for a second, the CDBG, for a lot of the good work you have done with not only our state, but across the nation.

Thank you, Mr. Chairman. I yield back my time.

Chairman OXLEY. The gentleman yields back.

The Chair now recognizes the gentleman from Missouri, Mr. Cleaver.

Mr. CLEAVER. Thank you, Mr. Chairman and Ranking Member Frank, for convening this hearing today on the President's Strengthening America's Communities proposal.

Given the negative impact the proposal will have on my constituents, I look forward to hearing the testimony today from Secretary Jackson.

Mr. Chairman, you may recall that the appearance of Secretary Jackson before this committee on Wednesday, March 2, 2005 resulted in more questions being raised than answers about the President's proposal. On multiple occasions, Secretary Jackson testified that the Department of Housing and Urban Development had no specific information related to the President's proposal or what was to become of the 18 programs that would be consolidated and/or cut. I do not blame the Secretary for that lack of information be-

cause I do not think the administration has provided it nor did they think through that entire proposal.

The absence of detail is also troubling, given the short timetable that would be necessary to implement the President's proposal. However, the basic foundation of the proposal is so flawed that additional details are unlikely to make any difference. At its core, I am particularly concerned about cuts in funding the Community Development Block Grant, CDBG, program and transfer of the program from HUD to the Department of Commerce for consolidation of 17 other programs. The President would fund this new program at a level that is 35 percent lower than the combined fiscal year 2005 appropriated levels for all 18 programs. The pro-rata reduction for CDBG alone is \$1.42 billion. This troubles me because as former mayor of Kansas City, Missouri I have first-hand experience with the CDBG program and the Section 108 loan program. Despite what some people may say here in the beltway, I can tell you that these programs are effective and they have achieved quantifiable positive results.

In addition, given the flexible nature of the CDBG program, these cuts will severely limit the ability of states and localities to address local housing and community development needs that are unique to that particular region. In Kansas City, Missouri alone, CDBG funded 80 programs including legal aid, crime prevention, homelessness assistance, small business development, sewer system improvement, senior citizen centers, neighborhood preservation and family service centers.

Unless Secretary Jackson says today that this is not so, I am convinced that transferring CDBG from HUD to Commerce, housing initiatives will be more than likely ineligible to receive funds. As a result, mayors and local officials will lose an invaluable resource for creating affordable housing. For example, during my tenure as Mayor, my administration identified 60,000 single-family homes in need of rehabilitation or repair. The CDBG program directly contributed to the rehabilitation and construction of 12,000 single-family homes. However, the President's proposal will in essence prevent the construction or rehabilitation of the remaining 48,000 homes and crush the dreams of 48,000 Missouri families.

Mr. Chairman, Ranking Member Frank, I lived in a house with no running water, no electricity, no indoor plumbing until I was 8 years old, and then my family moved into public housing, not far, Mr. Secretary, from where you left to come here to this great place called Washington, D.C. But my father, and I looked him in the eyes when he was able to buy a house and move it, because he bought it in a white neighborhood and had to move it into a black neighborhood, but I saw the pride in his eyes when he walked through the front door of our first home. My father then began winning the yard of the summer, because he was so proud of his home.

I am telling you, if this CDBG program is cut, there are dreams that will fall to the ground and in many instances never rise again. As the former President of the National Conference of Black mayors, I have met with the National Conference of Black mayors leadership. I have met with the U.S. Conference of mayors. I held a regional meeting in Kansas City from Iowa, Kansas, Nebraska and Missouri. Mayors came there from all over the region, small cities,

large cities, urban and suburban, Republican and Democrat. Not one, not one Mayor is in support of these changes. I would dare say if any Mayor in the country campaigned that he or she was in favor of removing the Community Development Block Grant program from HUD to Commerce, he or she would be an ex-mayor. This program is critically important. We need it to continue.

Mr. Chairman, on its face, the President's proposal seems to have been conceived without any consultation with municipalities, the principal beneficiaries. Thus, I would like to invite Secretary Jackson to come to my district and take a tour of Kansas City, Missouri and the metropolitan area. Since the CDBG program and the 108 loan program have been instrumental in revitalizing Kansas City, Missouri, I will show you, Mr. Secretary, building after building, business after business, home after home and job after job that would not have been realized without this vital program.

The CDBG program has a proven record of success all over this country, like no other federal program. Its list of achievements includes creating affordable homes, revitalizing impoverished communities and creating jobs. I sincerely hope that Mr. Jackson will counsel the President to drop the Strengthening America's Communities proposal because it should be killed in its infancy.

Thank you.

Chairman OXLEY. The gentleman's time has expired.

The committee now turns to our distinguished witnesses. Secretary Jackson, it is good to have you back before the committee. Secretary Gutierrez, welcome to Washington and certainly welcome to the Financial Services Committee. We are pleased to have both of you.

Secretary Gutierrez, are you beginning? However you want to proceed, Secretary Gutierrez.

**STATEMENT OF HON. CARLOS M. GUTIERREZ, SECRETARY,
U.S. DEPARTMENT OF COMMERCE**

Secretary GUTIERREZ. Thank you, Chairman Oxley and Congressman Frank, members of the committee. I appreciate this opportunity to discuss the President's Strengthening America's Communities Initiative. I am pleased to be here with my distinguished colleagues, and of course Secretary Jackson and Deputy Director Johnson.

We are enjoying tremendous economic prosperity throughout the country. We have a responsibility to ensure that it reaches all corners of the country. The economy is strong and we want to make sure that it is strong for everyone. There are transitioning areas experiencing high levels of unemployment and poverty. President Bush is committed to improving the service to distressed communities that are working to create the conditions for economic growth and job creation.

The President's Strengthening America's Communities Initiatives consolidates 18 community and economic development direct grant programs. The goal these programs share, and that I know we all share, is to increase economic opportunity in needy areas and raise the quality of life for the people living there. We believe that consolidating these 18 programs will eliminate duplication, will ease access to the federal system, will target assistance, will better ac-

count for taxpayers's dollars, and most importantly will achieve greater results.

The basic concept is not new, Mr. Chairman. The Initiative for a Competitive Inner City, the Progressive Policy Institute and the U.S. Council on Competitiveness, among others, have called for some consolidation of these grant programs to improve service and efficiency.

I recognize that much of the debate on the President's proposal is focused on the level of funding in the fiscal year 2006 budget. Let me just note here that in fiscal year 2005, the federal government will spend a total of \$16.2 billion on the overall suite of community and economic development programs. For fiscal year 2006, the President's proposed budget calls for \$15.5 billion in overall spending for community and economic development programs. This represents a 4 percent decrease and not the major reduction that some have claimed.

Under the President's proposal, funds would flow directly to communities and states in a formula grant form. This gives them important local control. What we ask in exchange for this broad flexibility is an agreement on performance measures so we can quantify the benefits at both the community and program level over the long term. Under the President's plan, assistance is targeted to the most distressed communities. We anticipate the vast majority of Community Development Block Grant entitlement communities will qualify for the new program. Some areas, especially rural regions, will actually see more resources than under the current system.

Today, distressed American communities face a federal maze of paperwork, programs and departments. We should and we can do better on their behalf. The President's proposed restructuring of the development direct grant programs is designed to do just that: help our neediest communities strengthen their economies and create new American jobs.

Mr. Chairman, I look forward to working with the members of this committee, the Congress and my colleagues on this important initiative. With your permission, I will submit my written testimony and I would be pleased to answer any questions. I will turn it over to my colleague, Secretary Jackson.

Thank you, sir.

[The prepared statement of Hon. Carlos M. Gutierrez can be found on page 62 in the appendix.]

Chairman OXLEY. Thank you, Mr. Secretary. Your full statement will be made part of the record, as will Secretary Jackson's.

Secretary Jackson?

**STATEMENT OF ALPHONSO JACKSON, SECRETARY, U.S.
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Secretary JACKSON. Chairman Oxley, Ranking Member Frank and members of the committee, I want to thank you for the opportunity to appear here today, as the committee begins its deliberation on the Strengthening American Communities Initiative, which the administration has proposed within the fiscal year 2006 budget.

I, too, am pleased to be here with my colleague, Secretary Gutierrez.

Let me briefly outline for the committee the motivation guiding the administration proposal and how the initiative will make the federal government a better partner in meeting the nation's community and economic development needs.

Today, potential grantees seeking funds for community and economic development projects must navigate a maze of 35 federal programs spread across seven different departments. Each program operates under a separate set of standards, and each has its own reporting requirements. These programs at times duplicate and overlap one another. They can be inconsistent in how they determine eligibility.

The goal of the Strengthening America's Communities Initiative is to consolidate 18 community and economic development programs into a single program. The new program will be administered by the Department of Commerce. It will build on the experience of HUD, Treasury and the other departments with related programs. I support the concept of consolidation as a catalyst for delivering more funding to communities in need.

The CDBG program is the federal government's largest single grant program to assist local governments in undertaking a wide range of community development activities. In the course of its 30-year history, CDBG has provided a ready source of flexible funds for housing rehabilitation programs, public services, public facilities and infrastructure, and economic development activities benefiting millions of low-and moderate-income persons.

While the formula has changed from time to time since 1974, the core variables have not been changed since 1978. In February 2005, HUD issued a report that offers four alternative formulas that would substantially improve targeting to community development need. This study will provide Congress and the Department of Commerce with formula options as it fashions the legislation for the new Strengthening America's Communities Initiative. However, I would hope that this new initiative embrace the flexible use of funds that grantees under the current CDBG program have come to depend upon.

In addition to CDBG, the administration's proposal would consolidate and replace smaller HUD programs, including Brownfields development grants, grants to Round II Empowerment Zones, Rural and Economic Development grants, and the Section 108 guarantee program. The Section 108 program has been used by a number of CDBG recipient communities to leverage their number of block grant dollars. Working with Secretary Gutierrez, I will seek ways to ensure that jurisdictions with previously awarded Section 108 loan guarantees to cities are not adversely affected by the transfer to Commerce.

I will work with Secretary Gutierrez, my colleagues within the administration, and the other agencies affected by the consolidation as the Department of Commerce develops legislation that will be implemented with the Strengthening America's Communities Initiative.

I would like to thank all the committee for your support and I will submit my full testimony to the committee.

[The prepared statement of Hon. Alphonso Jackson can be found on page 70 in the appendix.]

Chairman OXLEY. Thank you, Mr. Secretary, to both of you. We appreciate your coming before the committee.

Let me begin with what would be an obvious question to Secretary Gutierrez. That is, why would the Commerce Department better be able to administer the CDBG program? What particular expertise or other areas of influence would Commerce have vis-a-vis HUD?

Secretary GUTIERREZ. Thank you, Mr. Chairman.

The mission of the Commerce Department is focused on community and economic development. We have experience in working with local communities in developing performance measures that are tied to results. Very importantly, we have a network to the private sector which would enable us to attract private investment to local communities. So in putting a growth, job creation, economic development, community development focus on these grants, that would fit very well into the mission of Commerce. It would fit very well in what we do today, what we have experience doing, and we believe we can fulfill that mission with this community development program, sir.

Chairman OXLEY. How, specifically, would that work? That is, Commerce and their ability to attract private investment? We are not talking about trusts or anything like a charitable kind of thing. We are talking about private investment, right?

Secretary GUTIERREZ. Yes, sir.

Chairman OXLEY. Just kind of take us through an example of how would that work. Would you play a mediating role or a consulting role? How does the department fit into this whole equation?

Secretary GUTIERREZ. Our role, Mr. Chairman, would be in working with local officials and communities in developing the strategic plan, ensuring that there are adequate performance measures in place, and then very importantly giving all the support to the local communities to have them invest the funds as they see fit in a manner that would best achieve those objectives.

Chairman OXLEY. It seems to me HUD could do precisely the same kind of arrangement?

Secretary GUTIERREZ. Well, it is something that we already do today in our EDA grants. We have seen that many of those grants have performed and the objectives have been set. We have a little ratio that we use of \$32 leveraged for every dollar that we invest. Part of that leverage is private sector investment that we were able to attract to local communities. Ultimately, we believe that these programs will work if we can point to job creation; if we can point to economic growth; if we can point to a tangible improvement in that community's performance. We have experience in doing that today. We essentially do that today with our EDA grants. That is what we would like to do with the broader community development grants.

Chairman OXLEY. Secretary Jackson, Assistant Secretary David Sampson has said, "the highest level of poverty" would be the standard used in the new formula under Commerce's proposal for distributing money. Mr. Secretary, is the highest level of poverty the basis of the current formula for CDBG at HUD?

Secretary JACKSON. No, it is not. There are a number of areas that we look at. We look at the community, how the community

has developed over the time. Poverty is one of the variables. But in looking at that, we look at communities within the community, not necessarily the city as a whole. So you can have a city, the best example I can give you is Detroit. You can have a city like Detroit where we spend about \$50 per capita for each one. But if you look at Oakland, we spend about \$6 per capita because even with Oakland, a very prosperous community, you still have pockets of poverty. You still have pockets of areas that are pretty depressed.

So the block grant has a clear discrepancy as to how the money is spent. So it is not just spent because you have a very prosperous community. We look at if there are pockets of poverty as one of the subjects that we look at, not totally as the subject.

Chairman OXLEY. So there would be a change, then, in that standard as proposed by the administration. Is that correct, or am I missing something?

Secretary JACKSON. If poverty is the only basis or the highest basis, yes. Poverty is one of the bases that we look at. We look at how the city has matured, the housing stock of the city, the infrastructure of the city, when you take it into consideration. If you look at a city like Baltimore, when we were doing housing development with Community Development Block Grant funds, one of the important things were in rehabilitating a specific community, we had to look at the infrastructure. The infrastructure was totally outdated. So before we could go in and make any changes within that community, we had to address the infrastructure. So the infrastructure was just as important as poverty, as not having a very viable community at that point.

Chairman OXLEY. Thank you. My time has expired.

The gentleman from Vermont, Mr. Sanders?

Mr. SANDERS. Thank you, Mr. Chairman.

We welcome both Secretary Gutierrez and Secretary Jackson with us. Thank you.

Let me begin by expressing my strong agreement with Representative Cleaver. I was a Mayor for 8 years of Burlington, Vermont. The CDBG program worked extraordinarily well. I have to tell you that I regard it as an outrage that in the midst of a housing crisis that exists in many parts of this country that CDBG funding will not be able to be used for affordable housing.

Also, for an administration that tells us that they believe in bringing people together, how can you develop policy in which virtually every mayor in America is in opposition, League of Cities and Towns are in opposition? You are supposed to be listening to the cities and towns of America, not using the arrogance of power to tell them what is good for them. They are in disagreement. I would urge very strongly that you listen to what they have to say.

Mr. Chairman, I found Secretary Gutierrez's remarks particularly interesting. He began his remarks, and I quote, by saying, "the President and the administration start with the belief, first and foremost, that the tremendous economic prosperity America enjoys has not reached all corners of our country." Tremendous economic prosperity. Did I hear you correctly on that one?

Secretary GUTIERREZ. Yes, sir.

Mr. SANDERS. Maybe the confusion is that some folks to go country clubs and go to fundraisers with millionaires and billionaires.

I have to agree with you. Those people are doing very well. But I would suggest, Mr. Secretary, that if you talk to the middle class of this country, they do not believe that they are enjoying tremendous economic prosperity.

How can you talk about tremendous economic prosperity when over the last 4 years we have seen an increase in poverty in America by four million people? How do you talk about economic prosperity when almost 22 percent of the children in America live in poverty, which is by far the highest rate of childhood poverty? How do you talk about economic prosperity when more than four million more Americans have lost their health insurance? Forty-five million Americans today have no health insurance.

How do you talk about economic prosperity when 1.6 million American families went bankrupt recently, and most of that bankruptcy had to do with the loss of a job, a medical emergency or a divorce? How do you talk about economic prosperity when the new jobs being created today pay 21 percent less than the jobs that are being lost? How do you talk about economic prosperity when the middle class is shrinking and the gap between the rich and poor is growing wider?

So my question to Mr. Gutierrez, almost 22 percent of our children live in poverty. That compares to European countries where in many cases, 2, 3, 4 percent of their children live in poverty. Can you tell the parents in this country whose kids live in poverty about economic prosperity? Are you ashamed? Do you think there is something fundamentally wrong in a country as wealthy as ours when 22 percent of our kids live in poverty? Mr. Secretary?

Secretary GUTIERREZ. Congressman, let me address your question with facts and the numbers that I have. This economy is growing at, the last number for 2004, is 4.4 percent. That puts us as number six of the top 20 economies in the world.

Mr. SANDERS. And corporate profits are also going up. What is happening to the average worker, Mr. Secretary?

Secretary GUTIERREZ. So if I could just finish the thought on the economy. We are number six in the top 20 economies in the world. The only five that are growing faster are developing economies. So if you take large developed markets, there is no market in the world that comes close.

Mr. SANDERS. True, but not relevant to the needs of ordinary workers. Their wages are going down.

Secretary GUTIERREZ. In terms of average income, which would be the best way to measure if our jobs are generating more income than not, the average income during this administration's time in office is up 10 percent.

Mr. SANDERS. The average income is, excuse me, average income is not the best way to determine what is happening for ordinary families. If you are a billionaire and I am broke, on average we have \$500 million. That is not what is important. What is important is the real income of middle class families, which is going down. The rich are in fact getting richer and that distorts this whole question of average income.

Secretary GUTIERREZ. Congressman, the numbers I see show that average income is up 10 percent. If the jobs we were creating were lower-income jobs, I think we would see that number going down.

Unemployment is at 5.2 percent. That is the lowest it has been versus the average of the last three decades.

Mr. SANDERS. Mr. Secretary, I apologize for having to interrupt you, but I have a limited amount of time, so forgive me for doing that.

Chairman OXLEY. The gentleman's time has expired.

Mr. SANDERS. Let me just ask one last question, if I might, please?

Do you disagree that real inflationary-adjusted wages have gone down over the last 2 years? Do you disagree with that fact?

Secretary GUTIERREZ. Congressman, the number I have is that average income, adjusted versus inflation, has grown 10 percent since this administration took office.

Mr. SANDERS. You are not answering my question, sir.

Secretary GUTIERREZ. I do not have those specific facts, sir.

Mr. SANDERS. Thank you.

Chairman OXLEY. The gentleman's time has expired.

Would the gentleman come forward and take the Chair, the gentleman from Ohio?

Mr. NEY. It does not come off my time, right, Mr. Chairman?

Chairman OXLEY. No.

[Laughter.]

Unless you are slower than I think.

[Laughter.]

Actually, he has deceptive speed, Mr. Secretary. He is actually moving slower than it looks.

[Laughter.]

Mr. NEY. [Presiding.] Thank you very much. This is not for the purpose of theater. He has to leave, the Chairman does, so that is why I am moving over into here.

I want to ask a first question of Secretary Jackson. OMB had an analysis, the OMB PART, and in that analysis it was not very favorable to this program. Do you have any comments on that?

Secretary JACKSON. Are you talking about the PART scores?

Mr. NEY. Yes.

Secretary JACKSON. Yes, when we came into office in 2001, OMB was in the process of doing an evaluation of a number of programs within HUD, including the Community Development Block Grant program. They made some suggestions. I took the suggestions as an instrument for improving the Community Development Block Grant program. In that process, they said that there were not adequate tools in place to judge the outcome of the program.

So what I did, Mr. Chairman, is I brought together the professionals in the industry, the industry people and top-level people from OMB on a monthly basis for the last 14 months to come up with some positive way to measure the outcomes. We submitted to you about a month ago four different formulas that we think will address a number of the issues that were brought up in the PART scores.

We think still today that we addressed many of the issues that were brought up. I was asked last time by Chairman Oxley, had OMB been back in to assess that. No, they have not, but I think that they had great input in developing much of the performance

that we presented to Congress to try to address the issues that were raised in the 2000 PART.

Mr. NEY. Thank you.

Secretary Gutierrez, some people have said the CDBG would be cut 30 percent; some have said 4 percent. There is quite a discrepancy in the two. Would you want to comment on that?

Secretary GUTIERREZ. Yes, sir. There are 17 programs that would currently be folded into one program. One of those is CDBG. The remaining programs would actually, I am sorry, 18 programs would be folded in; 17 programs would stay the same. The 18 programs would be folded into one program. If we add up the two, we are talking about \$15.5 billion of spending. That compares with \$16.2 billion in this fiscal year.

So the overall pot of money that would be invested in community and economic development programs would decline by 4 percent. If you take individual programs, you can come up with a higher percentage, but overall, the overall pot that we will be working with and we will be investing in community development and economic development will be \$15.5 billion, compared to \$16.2 billion.

Mr. NEY. So some programs would have a higher percentage within a program, but overall you are saying it is 4 percent. It is not an overall 30 percent.

Secretary GUTIERREZ. It is 4 percent decline. You are right, some programs would see an increase within that number, yes, sir.

Mr. NEY. I think the question I had on this before, and if either of the Secretaries would want to answer it, let's say this happens and it shifts from HUD over to Commerce. Does it just shift in one total package as it is? Or do there have to be new rules written by Commerce, for example? Does HUD just shift it over verbatim? Are you to that stage yet, either Secretary, on that?

Secretary JACKSON. All I can say is that what we did from our budget, that is fiscal year 2005, was \$4.5 billion. We zeroed out \$4.5 billion out of our budget for 2006.

Mr. NEY. So then can anybody answer, does this, when it shifts over, does it come over that every, the point I am trying to get to, every way that HUD ran this and criteria and its usage, would that just come over also verbatim language? We know the money will come over. What about the language?

Secretary GUTIERREZ. Congressman, we plan to introduce legislation at the end of April. We have an advisory committee in place which is helping us sort through some of these details. We would hope that we can work out some of the rules with this committee and determine how best to utilize this money and how to design this program. We have an opportunity to design this program from scratch. I believe, Mr. Congressman, that if we had to start from scratch, and if we had the opportunity as we do to redesign a program, I do not believe we would design it the way it is today. So we would look forward to working with you on that.

Mr. NEY. Thank you. My time has expired.

Mr. Meeks, the gentleman Mr. Meeks is next. Excuse me, my mistake.

The gentleman, Mr. Kanjorski?

Mr. KANJORSKI. Thank you.

I do not usually identify with my friend from Vermont as well, but this is probably the first time I understand his reaction to both of your programs. Let me talk about just the broad view. I am really astounded that the administration, with a great opportunity, would have been so crass as to not work closely with the committee to reconstitute these programs with the thought process. The last time I looked at the Constitution, Mr. Secretary, the Congress writes the laws, not the administration. They assist us or request certain legislation will be introduced, but the Congress passes that legislation.

So the formulas, if they are going to be changed, the structure if it is going to be changed, is going to start at this committee and move through the full House; start in the Senate committee and move through the full Senate. I cannot believe the crassness of your two departments and the White House has in regard to reformulating programs that are so fundamental to the American people.

You know, quite frankly, we had a reorganization meeting of one of our subcommittees. I was one of the people who think we probably should take the time to look at how our programs are operating and whether we can do things to make corrections or changes that would be advantageous to the community. But I never believed that we would have two cabinet officers and the White House coming up here with a hatchet and just going at something like Community Development Block Grant. I am not sure you are just talking about a marginal cut, and yet some of the information that we are receiving it looks just in community development we are talking about a 35 percent cut, if the other programs are to continue to exist.

When you talk about a 35 percent cut or even a 10 percent cut, you are literally shooting at the heart of not only the largest cities in America, but most of the middle-sized cities of America that absolutely rely on community development money to put together and leverage larger projects. I think your indication is, you must have concluded that with this tremendous increase in average income in the United States, there has been a tremendous increase in infrastructure investment in the United States. Do either of you gentlemen suffer from that delusion?

Secretary GUTIERREZ. Congressman, we are here because we would like to work with this committee. We have an advisory committee in place that is advising us so that we can bring forward the best recommendation.

Mr. KANJORSKI. Just a second, let me stop you right there for a second.

Secretary GUTIERREZ. Yes, sir.

Mr. KANJORSKI. I just read in the paper, it was either the Post or the New York Times, some comments of my Republican colleagues in the Senate, castigating this administration as one of the worst administrations in terms of its relationship with the Congress. Those are not my words. That is Republican members of the Senate and the House saying that. I am going to tell you, they are winning me over.

The idea that you would come up here and just say, we are going to take \$4.5 billion out of HUD, turn it over to Commerce, and we

are going to tell you about it in a month when we send the legislation up, that even beats the President's Social Security plan, that I have not seen yet. I mean, you fellows have structured a phantom idea down there that you do not have responsibility to the constituents of this country, to their elected representatives, or to reality.

I understand your background and I have a great deal of respect for it as a CEO executive. Would you ever come to a board of directors, if you can talk about it in that term, in a corporation and say, I have the plan; I am going to give it to you in two months, but it is going to do this, and we ask you to go along with it, and that is what we are here for. Or would you have committees working on it? Would you have analysis?

Because I am not convinced that any of you have Community Development Block Grant experience that you really know how it works out there in the field. If you think you do, why don't you spend a day with me? I will take you to my district and I will show you what is done with it, how it operates, and how significant a blow this would be to almost every middle-size community in my Congressional district.

The other programs, I have got to tell you, I am experienced with the Commerce Department and EDA. If I had my druthers, I would double the funding because I think they do an effective job at very little regulation, with very little control, and get leverage of incredible capacity. I would hope that you would be looking at programs like that and say how we can better leverage private sector money with government money to create jobs, create infrastructure, and improve conditions. But to start off with the idea, and I think you ought to disabuse yourself of that fact. If you think the average income in the United States, average income if you knock off the two extremes, have really gone up 10 percent, then we are not even talking.

I agree with you. CEO salaries in the last 5 years, in the last years have increased significantly. But I could take you to any number of industries where benefits are taken away from people, contributions are required for health funds, and salaries or wages are being held tight or being reduced. I do not know where you are all living.

Mr. NEY. The time has expired.

Mr. KANJORSKI. If I just maybe for a second. You know, I actually do have some friends up in the country clubs and every now and then I try and go on their turf. I get the amazing response to them. They are usually pretty high-priced people, \$100 to \$500 an hour people. And they all stand around and complain about the plumbing bill they just paid, and did you hear at the local plant they just had a wage increase to \$18 an hour? You know? And most of these guys are sitting around making \$150,000, \$200,000, \$400,000, \$500,000 a year, and they are complaining about that guy making \$36,000 a year. I think that is what I see in this presentation and this administration. You are out of touch with reality, gentlemen.

Mr. NEY. The time has expired.

Mr. Bachus, the subcommittee Chair.

Mr. BACHUS. Thank you.

Mr. Secretary, I am actually optimistic by what I hear today, and let me tell you why. I am sure that shocks a lot of people. Everyone here has expressed the same goal and that is helping the distressed areas, helping the poorest communities. Mr. Kanjorski just talked about country clubs. You know, there are affluent communities where there are 10 country clubs in one small community. There is a gap, as Mr. Sanders said, between the rich communities and the poor communities. The bottom line, and Mr. Sanders said this, the bottom line is helping the poorest communities.

That is what President Bush says he wants to do and that is what you say you want to do. But what I am hearing is that there are affluent communities and there are poor communities, and we need to focus on the poor communities. It is my understanding that that is what you are proposing.

So let me just ask you one question. I think maybe it will cut to the chase, because every member has said, Mr. Ney, he said the most severely distressed areas. Mr. Cleaver said we have got to help the poorest people in the poorest neighborhoods. He and I both come from families, we were raised in areas where we did not have homeownership. I did not have a homeownership until I was 12. I remember the pride he had. So I think we are all concerned about the poorest communities.

Now, when OMB looked at the Community Development Block Grants which everybody is defending as a wonderful formula, and Mr. Kanjorski says you are talking about reformulating this. When they looked at it, they found, they looked at the 200 richest communities in America and the 200 poorest communities in America.

What they found was that 35 percent more money was going to the richest communities than the poorest communities. Now, is that accurate? It sounds crazy. It sounds crazy that the National League of Cities would not be standing on their head talking about the need to do exactly what the Bush administration is doing, and that is reformulate the formula so it goes to the poor communities.

Secretary GUTIERREZ. Congressman, your facts are absolutely right. I can show you communities with a poverty rate of 2 percent, 3 percent, that are receiving a significant proportion of the money. What this administration is saying is let's use that money for the people who need it the most. So I believe it is a very clear and a very noble objective.

Mr. BACHUS. Well, doesn't this discrepancy where more money has gone to the rich communities than the poor communities meant that what we have been doing in the past with community and economic development has not worked the way we want it to work? Because the goal, and I will quote another one of my Democratic colleagues, the goal is obvious: to target the severely distressed communities and neighborhoods.

Then he says, that is what is Community Development Block Grants are doing. That is not what the figures show, is it? Would you like to comment? How does the Strengthening America's Communities, which has been so roundly criticized as something to do with the gap between the rich and the poor, I think it maybe does in that it is going to target the poor for more help. But how does it address the gap between the rich and the poor that we are all concerned about?

Secretary GUTIERREZ. As you were saying, we want to make sure that the money is invested in those communities that need the money the most. I can also show you some, we picked out some communities just randomly and looked at results, and looked at performance measures. If you look at the poverty rate back in 1980 and since then, millions and millions of dollars have gone into some communities and the poverty rate today is higher than it was in 1980. So what we are saying is, we want to give the money to those communities that need it the most. And very importantly, we want to measure the results and make sure that we are improving the conditions of those communities.

Mr. BACHUS. Why does the press, including the New York Times and The Washington Post, why haven't they pointed out, particularly to their poorest constituents, that they are being mistreated and are not getting fair treatment, that 35 percent more money is going to, and that is per person, in the 200 most affluent communities in this country? They have received 35 percent more per person, per poor person, than the poorer cities. Why are the papers screaming about you wanting to reformulate this and base it more on poverty?

Secretary GUTIERREZ. It is a good question, Congressman.

Mr. BACHUS. Do they really like poverty? Do they really care about people that are poor?

Mr. NEY. The time has expired.

Secretary GUTIERREZ. We have an opportunity here to redesign and to start from scratch. Again, if we had to start from scratch, I do not believe we would design the system as it is today, and it is a wonderful opportunity to use our taxpayers's money in a wiser fashion. I believe we owe it to our citizens to do that.

Mr. BACHUS. I agree. It is a wonderful goal and it needs to go to those folks that are intended to be helped.

Mr. NEY. The time has expired.

The gentleman from New York, Mr. Meeks.

Mr. MEEKS. Thank you.

I am baffled by this also. I mean, generally sometimes we come and we have an issue when you can see things clearly, particularly all of the cities, Democrats one way, Republicans another way and things of that nature. But here we have, as the former mayor of Cleveland talked about, a situation where basically every Mayor, every Mayor, be he or she Democrat or Republican, those that administer the monies, those that are down on the ground at the level to make sure that the needs are being taken care of where they need to be taken care of, are basically against this consolidation.

Let me just basically talk about my Mayor, who hosted the Republican convention this past year, Mayor Michael Bloomberg, sending a letter to all of us and sending, I guess, to you also that he is writing to express his opposition to the Strengthening America's Communities Initiative. And he talks about the fact that by the 18 existing programs scheduled for consolidation were funded at \$5.6 billion, while the administration's proposed budget for their replacement is only \$3.7 billion.

He talks about New York City, which received nearly \$250 million in 2004 through just two of these programs, the CDBG and the

CSBG program. And he enclosed the details of how in fact he did utilize this money and it was utilized to help the poor and underserved, and that by cutting back we are really going to be hindering taking care of those who are least fortunate.

As I know Mr. Cleaver, and I heard Congressman Bachus indicate, I, too, if it was not for certain funding, coming from a poor neighborhood, and understanding the district which I represent, this will severely hurt them. Let me just give you an example. Let me ask a question, for example. We were trying to do a project in our district, and this is I guess under Commerce at one time, because what is important is some retail development.

At times, retail development becomes the cornerstone of economic benefit. We tried to go through EDA. We had a local community development corporation go through EDA trying to get \$1 million. It was denied because EDA indicated that they were not willing to look at a major retail development. We lived in a place called Rockaway, New York at that time.

So my question is, that this would have been a public-private venture; something that would have gone to the cornerstone of economic redevelopment in the community, creating jobs and everything, but yet from Commerce's perspective, they are not in this business, or at least they were not with reference to EDA programs.

So my first question would be, if this money was shifted over, would a similar determination be made when you are talking about retail development? Because we were able with this other money to have the flexibility to do what was necessary and what is necessary to economically revitalize distressed communities, or what I like to call new market communities.

Secretary GUTIERREZ. Congressman, I am not familiar with the specific example that you cited. I will say that part of the concept here is to allow local communities to invest the money where they see fit to meet performance standards such as economic growth, such as employment, such as the poverty level. I would tend to agree with you that in some cases, a retail outlet can make a big difference for a community. There are many other types of investments that can make a difference for a community, that can lower the crime rate in a community, that could increase the value of real estate in a community.

So it all depends on what is right for the community. If we can just agree on performance standards, then we can let local people invest that money where they see fit, because they understand, they know their community the best.

Mr. MEEKS. If you are talking about performance standards, then I still do not understand. If you are talking about evaluating programs, et cetera, why then shift jurisdiction away from HUD to Commerce, if it is just, you know, the process of evaluating and if you are talking about evaluating where the money is going or how it is being spent, and you have this set up, why not just tell HUD to do it? Why is it necessary to shift the money from HUD to Commerce?

Secretary GUTIERREZ. It is not only, if I may, Secretary Jackson, it is not only HUD. There are programs in five different agencies, 18 different programs. Each requires a different approval mecha-

nism. Each has different performance standards. Each requires a tremendous amount of bureaucracy. What we are saying is to shift the money into one area where it would be focused on one objective, which is to put it behind the areas that need it the most, to give it to local people, to invest it behind performance standards.

As I mentioned before, there is experience in the Commerce Department. It is part of our mission to foster economic growth, to foster job creation. So this would make sense to put in that overall pot of money and put it behind that EDA effort.

Mr. NEY. The time of the gentleman has expired.

The gentlelady from Ohio, Ms. Pryce?

Ms. PRYCE. Thank you, Mr. Chairman.

Secretary Gutierrez and Secretary Jackson, thank you very much for being here today.

I just want to clear up a few things in my own mind. The CDBG program currently affords a lot of flexibility to communities. It allows them to meet their unique needs. It works fairly well from where I come from. I was pleased to hear in your testimony that you want to continue to be as flexible as possible and also expand on flexibility.

I would be interested to hear your thoughts on how the new program will compare to the CDBG program in terms of flexibility when it comes to whether or not communities will be allowed to invest in community infrastructure and services, as well as housing. Will those be allowable activities? Either one of you or both of you?

Secretary GUTIERREZ. As I mentioned before, flexibility is an important concept and it is an important objective of the new strategy, if you will, for investing this money. Using local knowledge and local objectives the local people are the ones who best know where to invest it. There are occasions, as you say, where infrastructure can make a difference; where if we reduce a crime rate in a specific community, that that will be an incentive for businesses to invest capital; that if we improve the quality of the housing and the infrastructure, that that will increase the value of real estate. That, in turn, can make it more attractive for job creation.

So specifically to your question, yes, if that is what makes sense in a local community and is what will really make a difference, this program will allow for that.

Ms. PRYCE. And that is your understanding, too, Secretary Jackson, that housing and infrastructure services will all be a part as long as it helps to create jobs and improves economic activity in these areas?

Secretary JACKSON. I will do everything in my power in the process of developing the legislation to make sure that it is inclusive to continue the flexibility that is presently in the program.

Ms. PRYCE. Okay. I am particularly impressed by the emphasis on accountability, those aspects of your proposal, the performance standards, and wonder if you know how that will be implemented. It seems to me that will be something new and additional that we have not done before and costly to develop and implement. Where are we going to realize all this savings? Will there be actual cuts or are we going to see the savings come from the combination in the administration of all these 18 different programs? I assume

much of it will come from there. Or do you really envision cuts in dollars that are administrative?

Secretary JACKSON. Let me answer this first because I have heard on numerous occasions about accountability. It is important to understand that, yes, there are some flaws in the present community development program. When we came to office, we had a backlog of \$370 million with 200 projects. Today, we have a backlog of 25 projects with \$50 million.

It is because of accountability, because of what was said by OMB in 2001 that we got together with OMB, with the industry, with the professional groups, to develop some alternate plans which we submitted to you to address the issue. Many of the issues that were raised in the 2001-2001 audit have been addressed because we agreed specifically with OMB that there was an accountability problem that had existed at HUD not just that year, but going way back 10 years, 12 years as it relates to this program.

So we have done that and that is why I said in my opening statement that in the transfer to Strengthening America, we will consistently work with Secretary Gutierrez to make sure that these accountability measures that we have already put in place are successful going forward in the new program.

Now, yes, there are still problems, but I want everyone to understand that HUD has not been sitting on its tush for the last 3 years. When OMB came in and made the recommendations, I empanelled, I stress again, I empanelled people from the industry, people from the profession, and people from OMB who had made the PART study to correct many of the issues that we were seeing.

Now, getting to the point, I do believe, and I will support wholeheartedly what the administration and the President has said, the economic development programs should be consolidated. I do not back off of that commitment. But it is not necessarily because the program has been totally inaccurate and ineffective. That is not the case. It had been, but clearly with the suggestion and the position that was stated to us during the first PART score by OMB, we immediately began to empanel people to address the needs that we talked about by OMB.

Mr. NEY. The time has expired.

The gentleman, Mr. Watt?

Mr. WATT. Thank you, Mr. Chairman.

Let me first apologize to the witnesses for not being here to hear their testimony in person. Perhaps this became clearer as a result of the testimony, but maybe a better substitute for live testimony is the actual written statements. So I went immediately to the written statements and started reading them.

I quickly came to the realization that I think is leading to the consternation that is being expressed. Secretary Gutierrez, I am particularly interested in the comments in your statement. I start with page six, where you have a sentence that says the underlying premise of the President's proposal enjoys diverse support. So I went searching for the underlying premise of the President's proposal. I came away with several different things.

First, I went back to page four, and it said fiscal year 2005, the federal government will spend on the overall suite of community and economic development programs a total of \$16.2 billion; the

President's proposed budget for fiscal year 2006 calls for overall spending for community and economic development programs of \$15.5 billion, a 4 percent decrease.

So my first question is the underlying premise of the President's proposal to reduce the amount of money. I then went to the bottom of the page and I saw this comment, those communities that face the biggest challenges should receive the most assistance from the federal government. So I started to question, is this whole area going to be a means test? Is that the underlying premise that you say everybody is committed to?

And then I went to the next page, that is page five, and it says the best anti-poverty program is a good job. I wondered if it matters to a person who is looking for a job whether his or her job is located in the most distressed community or somewhere else within the city that they will be working in? So what exactly is the underlying premise that we are dealing with?

And then I went to the third paragraph on that page, and it says the Commerce Department works closest with the private sector and has had the most success in leveraging private sector resources. So I started to wonder whether the underlying premise is increasing private sector involvement or partnering in these programs.

But then I went to the last paragraph on that page and it said while the proposal is to consolidate funding for the 18 programs into one new program, the administration intends the new program to offer communities broad flexibility in the use of the funds. So then I said, well maybe the underlying premise that everybody is lined up behind is broad flexibility in the use of these funds.

I do not know what the underlying premise is that you are referring to, Secretary Gutierrez, on page six. The underlying premise of the President's proposal enjoys diverse support. I have not heard any of it in this committee. I do not understand what that underlying premise is. Is it cutting funds? Is it job creation? Is it private sector participation? Is it broad community-based discretion? What is this underlying premise that we all are supposed to be lined up behind?

Secretary GUTIERREZ. Congressman, the underlying premise is to do an even better job with the taxpayers's money; to give it to those communities that really need it the most; to give it to those communities that are in transition that have been impacted because certain industries have been impacted; to give it to those communities and then to ensure and to help those communities improve their level of job creation; the level of economic growth; the value of real estate; the crime rate; performance measures; actual improvement in people's lives. That is the underlying premise and we would like to work with this committee.

Mr. WATT. And Commerce has more authority over that than HUD?

Mr. NEY. The time has expired. If you want to answer that question, go ahead.

Secretary GUTIERREZ. We have experience doing that, Congressman, yes.

Mr. NEY. Thank you.

The gentlelady from New York, Ms. Kelly?

Mrs. KELLY. Thank you.

I appreciate the presence of both of you here. I have been hearing from my communities in New York. They are frightened, quite frankly. They are in somewhat of a turmoil now because of this proposal and they do not really have any specifics on how they in particular will be affected.

I am concerned about what your dialogue has been with America's communities and what outreach you have done toward the communities that already have the CDBG monies and are using them. I am concerned about what their ongoing projects are going to be. I am concerned about the fact that I, in particular, do not seem to have specific proposals in hand. It is a controversial plan and I do not see specifics. So I wonder if you could address that, either one of you.

Secretary GUTIERREZ. I will just say a couple of things, Congresswoman. First of all, I understand the nervousness because this is change, and change usually creates some anxiety. That is why we would like to develop the specific plan with the committee and with an advisory committee. We have not come forward with specifics because we felt we owed it to everyone to come forward with a concept where we can start from scratch, redesign this, that it really does benefit those Americans who need the money the most, and then work together so that we ensure that programs do not get left out, that communities do not get left out, that we do this in the best way possible.

So that is really what is driving the proposal. I understand that change always generates anxiety, and that is why we want to work with this committee. But we have a great opportunity here.

Mrs. KELLY. I understand that, sir, but I would like to know if you have procedures in place for consultation with states and communities that are already utilizing the CDBG monies, to get their ideas, their comments, their proposals, before you submit a detailed piece of legislation to Congress. Is that in place?

Secretary GUTIERREZ. Yes, we are putting an advisory committee in place with representatives from communities, people who understand community development and economic development, and getting that input and getting the benefit of that as we develop the plan. I have tried to go out and visit some of the centers to actually look at first-hand where the money goes and to live it and to touch it and to feel it. I cannot say I have been to 100 places, but I have been to a few and I have tried to get out there and get a sense of this myself.

So yes, we will work with those who want to work with us. We would like to have the benefit of your contribution and the benefit of everyone's input.

Mrs. KELLY. Mr. Jackson, I am concerned about what will happen with ongoing projects. What is being planned for them? Are we looking at a hard landing for them or a soft landing? Are you going to phase them out? Are you going to just simply cut them off?

Secretary JACKSON. Congresswoman, I do not think we can phase any of the programs that are ongoing out. We have allocated the monies for 2005 for the Community Development Block Grant program. We also have some outstanding 108 loans that clearly we will have to take into consideration with any proposal that we de-

velop as to how we address those issues. I would think that in the future coming, yes, we would have to address those issues.

Mrs. KELLY. But by implication, you are saying you do not have a plan at the present time to deal with this. Is that correct?

Secretary JACKSON. Commerce is taking the lead in developing the plan and the legislation. We will serve to augment the development. I have had a number of conversations with Secretary Gutierrez informally about the plan. It is being developed now and we will in essence work with the Commerce Department as it is being developed.

Mrs. KELLY. Mr. Secretary, are you going to allow Congress to have a look at this, are you going to work with us and do you intend to work with the communities to try to allow those people who are currently engaged with CDBG plans, things that they have started, they are going to need continuing money to finish, in all probability, some of these, do you intend to work with them? Have you got something in place, some kind of a structure in place to get these people together so that you can hear what they are saying and react and listen and take into consultation what they are saying, before you submit detailed legislation to us?

Mr. NEY. The time has expired.

Secretary GUTIERREZ. Yes, Congressman. We would work with this committee. We would work with communities. We understand that there are projects that are ongoing, and some of them are half-way completed; some of them are three-fourths of the way completed. We cannot just go in and chop off the project.

Mr. NEY. The time has expired.

Next is the distinguished gentleman, Mr. Clay from Missouri.

Mr. CLAY. Thank you, Mr. Chairman and Ranking Member Frank.

Mr. Secretary, I am not in favor of the transfer of CDBG from HUD to Commerce, and having said that for the record, I have a question that I asked Secretary Jackson the last time he was here. I, like most members of Congress, am deeply concerned by the drastic budget cuts of the CDBG program and the proposed shift of its jurisdiction and oversight from HUD to Commerce.

I additionally have questions about whether the efficiency of targeting revenues from CDBG grants will be enhanced or diminished if such a transfer does take place. I represent St. Louis, and the statistics of poverty and lack of housing in North St. Louis qualifies the city for quite a large amount of money from HUD through the CDBG program. Yet, much of this money is never seen in North St. Louis and is sent downtown for other projects. We bring money into the city, yet the problems still exist.

How do we better affect methods to get the money to the areas that produce the justification for the block grants? Although I do not favor sending the program over to Commerce, would this result in a much more efficient targeting of the monies than is presently practiced? What suggestions do you have that can result in a systematic targeting and then eliminating the housing problem in districts like North St. Louis?

Secretary GUTIERREZ. We believe, Congressman Clay, that we should address that and that it is not right that if the money is being sent to St. Louis that it is diverted and does not reach those

areas of the city that need it the most. The whole idea is to encourage and support projects that have long-term objectives, and performance metrics, and to make sure that those projects get all the support they need.

I was just looking at statistics for St. Louis. You are absolutely right. It has a poverty rate that is above the national average. It is an area where we should be able to measure that. We should be able to look back once we start this program and have tangible results. That is what this is all about. We are trying to redesign a program to make it as efficient and effective as possible and we would like to do so with the help of the committee.

Mr. CLAY. Well, if that is the case, I am willing to work with you in that respect.

Secretary GUTIERREZ. Thank you, sir.

Mr. CLAY. One more issue. In the First District of Missouri, we have tremendous problems with health care, brownfields redevelopment and many other areas addressed by CDBG. How will taking this program from the professionals in one agency and putting it with new personnel in another agency drastically reduce the monies needed, when it is already underfunded? How will that make the situation better, transferring it from HUD to Commerce?

Secretary GUTIERREZ. Again, we do have experience working with communities to leverage private sector dollars. The Commerce mission is to work with private sector, work with local communities to enhance job creation, to enhance economic growth. That mission, that mindset, can be applied very powerfully to these grants so that we do end up with communities that are creating jobs, that are growing, that are more vibrant.

Mr. CLAY. Thank you, Mr. Secretary.

When your schedule allows, I would love to invite you out to St. Louis and show you around and show you some of the needs of the area of St. Louis that I represent. I sure would like for that to be sooner, rather than later.

Secretary GUTIERREZ. Thank you.

Mr. CLAY. Thank you.

Mr. NEY. The gentleman yields back his time.

The gentleman, Mr. Garrett?

Mr. GARRETT. Thank you.

And thank you, Mr. Secretary.

I think generally speaking everyone up here is on the same page on at least one point and maybe two, and that is on the one point we are on the same page is we are all concerned about addressing the needs of the least fortunate. We may or may not be on the same page as to making sure that we do so in the most efficient manner, however. It seems as though you have been lambasted so far from both sides.

On the one hand, it is suggested to you that you are being too detailed and coming to us with a program that is already in place and we have no input on it. On the other hand, there are assertions by the ranking member that there is no detail in this program whatsoever and that is creating the confusion that is out there.

And maybe that is part of the problem. The last point is true that we have confusion in the field because there are not the de-

tails, but I think that is appropriate. This is the committee that will be looking at it, and hopefully I personally would like to work with you to move it forward and making sure that all the input from the cities on up and the municipalities and rural areas on up get their two cents worth into the program.

I think we all know of good programs back in our home districts. We have a program called Norwescap, a great program, works hard on a shoestring budget; brings together a whole bunch of programs and gets the job done. But I think if we are honest, we would also say we know a lot of programs that are not really getting the job done, in part because of how the program is set up now in Washington.

I understand you have 35 programs out there under seven cabinet offices. Bob Ney has already mentioned that it is not getting the job done when we are putting 35 percent of the money less into those areas with the highest poverty rates. That is not getting the job done.

The complexity of it, I was just looking at the one chart here, is just like anything else you will see here in Washington. The current program with all the cabinet offices up here and all the agencies underneath, all the program underneath, acronyms which I honestly do not know all of them, the NCDI, the CDEF, the RCF, the CDBG, the CDOS, the RHED. I can understand anyone back at home says, how do I get my program run when I have to deal with that mess, present company excluded, of course, in Washington?

Then on top of that, we see that in PART, the program assessment rating tool, which rates out of the OMB all agencies of the federal government, most agencies, they looked at this, looked at most of the 18 federal programs that are slated for consolidation, and found that most of them are either ineffective or the results are not demonstrated.

So I would hope that we could all get on the same page and say that we want to help the least fortunate; and (B), that we want to do it in the most cost-effective manner.

Now, my question sort of goes around a different area, though. There was an article in Human Events a while back, last term I think it was, that raised the question to all department heads, all cabinet offices: Is your cabinet one that is constitutionally valid? Is there a constitutional basis for your programs? This issue is more than academic to me from New Jersey because New Jersey is a state that is, on the up-hand, the most affluent state in the country, but on the other hand, that is on average, I go back and get editorial board meetings all the time that say why aren't you bringing enough of your own money back to New Jersey again?

When you are an affluent state and you are looking at programs like this, we are not getting our own money back. We end up subsidizing the other 49 states all the time and in this program especially. So we do not get it back, and yet we do have a problem in our state.

Although we are an affluent state, not everyone is affluent. We have poor people in our state. When you have the average cost of a house at \$300,000, poor people, new immigrants to our state,

they cannot afford that. They are coming together in little houses and three families are living there so they can get by.

So programs like this may say, well, you are poor by a certain definition, but when it looks at a state like New Jersey that is affluent, well, we are not poor anymore because we are a rich state. So we end up subsidizing everybody else and not getting our "fair share" back at the end of the day. So I raise that question to you at the end. The first question goes back to how do we make this seem more local, but the larger question, the Human Events question, is there a basis for this? And how do I explain this back to my constituents on a fairness basis?

Secretary JACKSON. Let me say this to you, Congressman. In 1974, Congress wrote the law as to how the community development agency would work, how the Community Development Block Grant program would work. In that process, they talked about several factors: the distress factor of the community, the population, poverty, age of housing, and growth lag. They said take these into consideration as to how you fund the program. To date, that is what we have taken into consideration.

So therefore as I gave you the example with Detroit just a few minutes ago, that in the city of Detroit it meets all five of these guidelines. So therefore, we are allocating about \$50 per capita in the city of Detroit. But Oakland, in many ways like New Jersey, is a very affluent suburb, so we allocate about \$6 per capita because even being an affluent suburb, they still have pockets of poverty. They have housing that is pre-1940. So therefore, we still have to address that situation.

Mr. NEY. The time has expired.

Secretary JACKSON. What we have done to date because of the PART score that we have, again I reiterate it, I empanelled people from the profession, from the industry and OMB. We completed an analysis and we have submitted to you four scenarios for your consideration as to how best to address the issue that you just said. It is up to Congress now, this committee, to analyze those four scenarios that we gave you.

Even if the program goes to Commerce, I think it is still important to analyze those scenarios as to how you think the program of those four should best work. That is the way I think that it came about in 1974 when now Secretary Mineta was in the Congress and helped write the present legislation that we operate under now. We are giving back to you based on what was asked of us scenarios that you can decide how and how best the program should be administered.

Mr. NEY. The time has expired.

The gentleman, Mr. Scott of Georgia.

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

I must admit that I am having some serious, serious issues over here as to the big why. Now, we are getting hit two ways here. First of all, these critical programs are being cut in funding in housing and community development by 35 percent. Then you are taking the remnants of those, 18 programs, and shifting them away from the agency with the heritage, the tradition, the experience of working with these programs, whose total mission is affordable housing and effective community development, and shifting them

away from that over to the Commerce Department which has no expertise. And to say that this is done in the interests of efficiency makes a big why to me.

Secondly, this has got to be a total loss of confidence in you, Mr. Jackson, and your department, to take these vital programs from your agency, from you. You are far more qualified from my estimation, no disrespect to the Commerce Secretary, on these issues, with your background in housing in Texas, in Houston, I believe. You have come up through the ranks, and you are sitting there and seeing these programs cut out from under you in the interests of they can be better done over here.

I think that is a slap in the face to you and to HUD, which we have had many problems with, but it is clearly the agency where these programs belong. With all due respect, they do not belong in Commerce. The question has to be answered. The American people are expecting an answer. Why? In the face of this, the Commerce Department does not have any expertise in brownfields. The Commerce Department does not have any expertise in community block grants, affordable housing. What about the transition costs that are involved in transporting these services?

We need to really come clean with this. Is this a way of killing the block grants softly? Something is rotten in the cotton here. There are nine categories of eligible activities authorized by Congress under the CDBG program. Most of these categories are related to housing or property. Do you mean to tell me that the Commerce Department has more experience than the agencies that have been handling this, with housing and property development, to adequately assist local communities and their community development needs?

There is something not right with this move. Could you respond?

Secretary JACKSON. I will be happy to, Congressman. Let me say this to you. I would disagree with you paraphrasing this as for inefficiency purposes. I do not think that is the basis that this is occurring. There is inefficiency in every government program.

Mr. SCOTT. Well, why do you think they are taking these programs from you?

Secretary JACKSON. May I finish please? My understanding, and I still endorse the concept, is for consolidation. Yes, I do believe that the economic development programs should be in one place, and I stick to that premise. I do not perceive it as a slap in the face to myself or to HUD.

As I said to you before when you asked basically the same question in the previous meeting, we made our logical argument as to why we thought it should stay at HUD. It was not. I support the concept then as now that we should consolidate the programs, not because of inefficiencies, not because of something that the programs have done wrong. I think they should be housed in one place so they can be administered by one administrator. I do not in any way backtrack from that.

Mr. SCOTT. Mr. Jackson, do you approve of these cuts in the CDBG program?

Secretary JACKSON. I do not know of cuts. I know that I zeroed out of my budget \$4.5 billion.

Mr. SCOTT. Do you agree with those cuts?

Secretary JACKSON. I am not sure what you are asking me if I agree with, Congressman.

Mr. NEY. The time has expired.

Mr. FRANK. Would the gentleman yield? The number in the budget is \$3.7 billion for CDBG and everything else, not \$4.5 billion even.

Mr. NEY. The time has expired.

Mr. Miller, the gentleman from California.

Mr. MILLER OF CALIFORNIA. Welcome, Secretary Gutierrez. I have not had a chance to really talk to you or hear you in the past, so it is good to have you here.

I know, Secretary Jackson, last time you were here, you thought you were going through a divorce, and everybody loves you today. What a change a day can make.

[Laughter.]

It really is. Everybody has a right to come up with an idea. I am looking forward to seeing what your final proposal is going to be on this because you are here talking today. You are not here cast in concrete. You are here I think asking for some direction and advice on what we would like to see happen. Rarely do I hear anything from our cities as unanimous as I have on this issue here.

One of the things that bothers me, and I listened to Mr. Frank when he spoke also, and we are going to target the highest levels of poverty. The problem I have with that, because somebody who might be low income in a high-cost area might not necessarily be low income in an area full of poverty, but they both have needs. That is a concern for me.

The concept of starting from scratch, if we have waste, fraud and abuse, I think we need to absolutely deal with that. I agree with you 100 percent. There needs to be accountability. We need to eliminate any outdated or unneeded programs. I am with you on all of that.

I come from a 30-some year experience as a developer and builder out there. I just look at economic development and community development as two different issues. In my industry, they are looked at two different issues. I have really enjoyed both your answers because I am impressed by both of you.

I think you do a very good job in Commerce, and I have listened to your answers because you have a strong background and your expertise is that, economic development. I support that for communities. When my communities go out and they are trying to encourage economic development, they are working on shopping centers and bringing revenues into the city so they can provide the infrastructure and make the community better overall.

But when my communities are going out and doing community development, it is a different issue altogether. The people I am concerned about in my district, because they do not fall into the highest level of poverty, are those that are low income, seniors specifically even in my area that need mitigation for building safety programs, deficiencies they have, violations, senior programs, physical mobility that we provide for in our communities, nutrition, meals on wheels, which CDBG funds in our communities, and the YMCAs which do a good job helping low-income mothers who are out work-

ing and have a place for their kids so they can go to. That is all subsidized by CDBG.

I guess my concern is, Secretary Gutierrez, I think you have the expertise to try to build that strong engine in an economy which provides jobs, does benefit communities. And Secretary Jackson, I remember of you last time getting beat up a little bit, and I thought you and I were just best old buddies because we were agreeing on most everything, and I think you have done a good job in what you do, too.

So I like both of you, and I am in a problem here, because I have two individuals with expertise that are great in what they do, and we are going to mix them. That kind of bothers me. I am going to look at what you come up with at the end, but that in itself bothers me because I have listened to your responses and both of you, I give you high marks in what you do because your responses are based on your expertise. I think you are great, both of you, but when we mix them, I have a problem.

Now, Secretary Jackson, having been Chairman of two community development agencies, what is your assessment of CDBG today?

Secretary JACKSON. Today, it is good. If I stood here and told you that the Community Development Block Grant program has not worked in this country, I would be very hypocritical in the sense that I was Chairman of the community development agency in St. Louis and the community development agency in Washington, D.C. I can point to several projects that were done with CDBG money that are an absolute success.

Mr. MILLER OF CALIFORNIA. So we are finding it might be necessary in some areas?

Secretary JACKSON. I am sorry?

Mr. MILLER OF CALIFORNIA. From your findings and application, it might be necessary, and I am with you on that. I agree with your response.

Secretary JACKSON. I think, Congressman, what I said to you was when we walked in here we had \$370 million with 309 cities in backlog. There is no question. Today, we have 50 cities with \$25 million.

Mr. MILLER OF CALIFORNIA. You have given me my response. You are doing a great job. I love you. I am going to get to him because I am going to run out of time real soon.

What tools or institutional models do you have at Commerce that they do not have?

Secretary GUTIERREZ. I just want to follow up.

Mr. MILLER OF CALIFORNIA. I am not trying to cut you off, Mr. Jackson; you know that.

Secretary JACKSON. That is fine.

Mr. MILLER OF CALIFORNIA. My light is going to go red any minute and I am going to be dead.

Secretary GUTIERREZ. Congressman, I would like to say that the problem is not HUD, and I would agree with Secretary Jackson about the people within HUD and the commitment and the passion they have.

Mr. MILLER OF CALIFORNIA. No, I never said there was. That is not the question, yes.

Secretary GUTIERREZ. They do great work. The problem is the system. We have 18 different programs with 18 different evaluation techniques, 18 different ways of accessing the money. Some have measures, some do not. So it is the system that we are trying to correct, and it is not any kind of indication that HUD has not done a good job. I want to make that clear, because we have a great deal of respect for the people at HUD.

We are talking about what we can do better. We are saying that if we all get our heads around this, we design a system from scratch that is better and can do better for our people.

Mr. NEY. The time has expired.

Mr. MILLER OF CALIFORNIA. As a supporter of Commerce and HUD, I would love to spend more time talking with you. You have an expertise in both of what you do. But I am concerned, and I am not against either one of you. I am just concerned.

Mr. NEY. The time has expired.

The gentlelady from California, Ms. Lee.

Ms. LEE. Thank you, Mr. Chairman.

First, thank you both for being here and laying out this concept. You indicated earlier that you did not really have a plan yet and that this is just a concept. Well, I think you have heard from both Democrats and Republicans on this, from people around the country. It is a bad concept. So I do not know why you just do not go back to the administration and say to them it is a bad concept; it has very little support; and forget it. Because there is no way that this concept should be developed into a plan.

First of all, do you know, several years ago there were signs that this administration wanted to dismantle HUD. I think this probably is one of the major steps in getting rid of HUD. Many of us believed then as we believe now that HUD is an agency that provides really for the least of these.

And given the values, agenda that you all have, it boggles my mind to believe that you could now transfer this into the Department of Commerce. I said this to you earlier, Secretary Jackson, that it does not reflect the values that say that we care about those who are most in need in our country.

What kind of, and I am asking you Secretary Gutierrez, what kind of track record do you have with people who are living with HIV and AIDS and who need housing, or with the disabled? I know HUD has proposed all these huge cuts to the disabled and to those living with HIV and AIDS as part of their overall budget. So I need to get a handle on how in the world Commerce is going to manage and put forth some of these initiatives that you all do not have, quite frankly, a clue about.

Secretary GUTIERREZ. The concept here, Congresswoman, is to do a better job with the money the taxpayers have given us. As we look back and look at communities that have received millions and millions of dollars over the years, we have seen poverty rates that are increasing. The money that has been invested in these communities has not generated results. We believe that we have to do better.

Ms. LEE. Do you have anything that shows that the Department of Commerce has helped to reduce poverty rates and knows how to

provide services to those living with AIDS and senior citizens and the disabled communities?

Secretary GUTIERREZ. We have in our EDA grants which granted is smaller, but we do have experience in working with economic development and community development metrics. We can show you examples of communities that have increased their job creation, where economic growth has improved. We believe that due to the right thing for a community, that that should translate eventually to better jobs, more jobs, higher real estate values, a better quality of life.

Ms. LEE. Sure, maybe eventually, but right now we are talking about right now. The CDBG has created, what, at least 90,000 jobs last year; housing, rehabilitation for housing, the services that CDBG provides as an adjunct to economic development. What in the world does Commerce know about doing this?

I understand what consolidation means, but when you are going to abandon a mission that HUD has in terms of being really the only agency, if you asked me, that has as part of its mission to ensure a safety net and ensure that the least of these are at least provided some kind of government focus. You know, it is an effort I think to just get rid of those people and let them fend for themselves.

Secretary GUTIERREZ. We are deeply committed to improving the lives of everyone. Our mission is around creating jobs, creating economic growth, having tangible results for people. We believe we owe that to people and we owe it to them to use taxpayers' money more efficiently.

Ms. LEE. So Secretary Jackson, you do not owe that to people anymore, out of HUD, as it relates to the CDBG?

Secretary JACKSON. Of course, and we will continue to do that.

Ms. LEE. How are you going to do that, when you proposed, first of all your cuts that you proposed; and secondly you said you had debated the concept and you lost, they won. Well, why don't you go back and debate it some more and say this is a democracy. There is no support for this out there in America.

Secretary JACKSON. It is not a win or lose situation. As I stated before, I see it as consolidation. Secondly, HUD is still in place. We are still operating.

Ms. LEE. But you are dismantling a huge portion of HUD right now. Next year, you will dismantle the rest. Trust me.

Secretary JACKSON. We are not dismantling.

Ms. LEE. Yes, you are.

Secretary JACKSON. No, we are shifting resources.

Ms. LEE. You are getting rid of HUD. That is what you are doing. You are dismantling it and next year we will see you nail the coffin shut, with your support.

Mr. NEY. The time has expired.

Mr. Pearce?

Mr. PEARCE. Thank you, Mr. Chairman.

Mr. Jackson, nice to see you after your visit to New Mexico with me.

Secretary JACKSON. Thank you.

Mr. PEARCE. Mr. Gutierrez, we look forward to that.

I would like to associate my comments with Mr. Clay from Missouri who commented that many times we send funds to very poor areas and those funds are diverted along the way. Our office, for one, has told our communities if we ever get your money for a project and you do not use it for that, we will never ask again, never. So I appreciate having you all come to this situation with us.

As I listened to the discussion, I am a little amazed. You know, we are talking about shifting functions and we as a Congress just had a great national discussion on revamping and in fact changing the way we gather intelligence. And yet we are concerned here about the shifting of functions. I swear I thought I was hearing a converted Republican talk, because he talked about unelected officials who are rewriting the Constitution and rewriting programs without authority. And I was sure he was talking about the judiciary, which we talk about all the time, taking constitutional functions. But just as he fell into a dead faint, he declared it to be the administration instead.

Who is going to look over the functions, the state or the federal government, of the SAC program? Who would administer that, the federal agency or state agencies?

Secretary GUTIERREZ. Overall, obviously the money is federal money, but the management of the programs and the accountability for the programs should be at a local level.

Mr. PEARCE. You bet. Okay, I appreciate that. Again, we are basically doing that in our office. We are asking the communities to prioritize their needs and then we simply see if we can get the dollars. Everyone always talks about local control until we actually set about doing it. So I appreciate that. I appreciate the ideas of eliminating duplication and expanding flexibility.

For rural areas, we are very concerned with how much actual funding that we might lose. Do you have a spread sheet showing how much funding actually would go through the system compared to what it is right now? I suspect we are going to lose a lot of duplicative functions, a lot of administrative function. So I am thinking that the water at the end of the pipeline, the money out the end of the pipeline might actually be the same or more, frankly.

Secretary GUTIERREZ. We do not have numbers for rural areas, although we believe that if we apply criteria that would force the money to go to those areas most in need, that that should surface more rural communities.

Mr. PEARCE. Thank you. The current assessment tools for CDBG, who administers those and are those assessment tools going to be carried through? Or have those assessment tools maybe have not worked? I do not know.

Secretary GUTIERREZ. We would manage the assessment tools, performance metrics at Commerce, with local communities in the programs. I am sure that OMB would continue to evaluate our work the way they evaluate the use of federal money across the system.

Mr. PEARCE. Again, I appreciate the idea of accountability, because I have listened to a very shrill debate on No Child Left Behind in our state and the teachers declaring that the accountability was going to be the end of education. Yet in the last school that

I visited, the increase in reading scores was 28 percent; the increase in math scores was 26 percent. And the poor, that is free and reduced school lunch programs, those kids are up almost 50 percent. So No Child Left Behind, with a little bit of accountability, is actually directing the money very well and I suspect that we are going to do the same thing.

I think my last comment, Mr. Chairman, has to do with the economic discussion that was had. You know, American jobs are under fire and at risk of going overseas to countries that are subsidizing entire economic climates. They have a culture of maybe no regulation and we are competing with that. American technology is being stolen and then being used to turn around and give jobs to foreign countries instead of U.S. countries. Our intellectual property is being taken away. The American worker is competing with workers who are making dollars per day instead of dollars per hour. In short, our nation is fighting for its economic life.

Mr. Gutierrez, I am proud to have you on the team because we must win this battle. It takes more than shrillness in this room and it takes more than harsh comments for the American economy to survive because we are under attack from every other nation. The enemy is not on the other side of the aisle in this body. The enemy are those who would take our jobs and transport them.

So I appreciate having you all, and I appreciate the thorough look that you are giving this. I look forward to working out the parameters, but if you could get me those spread sheets showing the reduction of funding, I would appreciate it.

Secretary GUTIERREZ. Yes, sir.

Mr. NEY. The time has expired.

The gentleman, Mr. Moore from Kansas.

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

Secretary Jackson, recently I received a letter from the Johnson and Wyandotte Counties Council of mayors. Those are the two largest counties in my district, that comprise probably 85 percent of the population of my district. We are right across the line from Congressman Cleaver, who asked you some questions earlier.

I received a letter expressing their apprehension about the proposed changes. The Council worries, and this is a quote from their letter, "a 35 percent cut in economic development spending for fiscal year 2006, coupled with the transfer of the CDBG program to an agency unfamiliar with its mission will immediately undermine local job creation, antipoverty and revitalization efforts in communities across America."

I wondered, Secretary Jackson, is you have heard that the United States Conference of mayors has denounced the cuts that are presented in the President's proposal?

Secretary JACKSON. Yes, I have.

Mr. MOORE OF KANSAS. And have you also heard the National Association of Counties have denounced the cuts in the same manner?

Secretary JACKSON. Yes, I have.

Mr. MOORE OF KANSAS. The fiscal year 2006 budget request of \$3.71 billion for the program represents a 35 percent cut in funding compared to the fiscal year 2005 level of \$5.665 billion. The pro-

posal would mean a \$1.16 billion cut in funding for affordable housing in our communities.

On March 12, I had a press conference in my district with seven mayors and the Chairwoman of the Board of County Commissioners. Most of these folks in my district, frankly, are in the President's party and I am sure voted for the President as well, but they are very, very concerned about these deep cuts in this program.

I want to read to you just a very short couple of paragraphs from a Kansas City Star article that appeared after our press conference. In Prairie Village, seven Kansas mayors and other public officials from Johnson and Wyandotte Counties said the areas stood to lose vital safety net funding. "CDBG money is not about urban. It is not about rural. It is about people," Annabeth Surbaugh, Chairwoman of the Johnson County Commission said in a news conference held by Representative Moore. "It seems like when the feds do a shift in funding, we get the shaft." She is very plainspoken, but that is what Chairwoman Surbaugh said.

I have the same kind of concerns because I do not want to see a program which really has developed communities and helped people in our country have the funding cut so much that it ends up hurting communities and people. You can call it whatever you want. We can say Strengthening America's Communities, but if we are actually hurting communities and hurting people in this country, we are not doing a service for our folks.

I tell people, and I really mean this, this should not be about Democrats and Republicans. This should not be about partisan politics at all. This should be about helping our country and our people. I want to just read one more statement from Chairwoman Surbaugh. She said, "Without the grants, homes deteriorate, neighborhoods crumble, and the social fabric of a community begins to fray."

I have those same concerns because I, number one, believe that these funds have helped our country and our communities and our people as much as about anything we have done. I just hate to see it, I cannot believe that the mayors and the county commissioners around this country are all so wrong. I certainly want to see the details of your proposal and I hope you will get that to us as soon as possible, the other Secretary, Mr. Gutierrez, if you would please.

Secretary GUTIERREZ. Yes, sir.

Mr. MOORE OF KANSAS. What do you say to the mayors, either one of you? What do you say to the mayors and what do you say to the county commissioners in this country, almost unanimously, not unanimous, but almost unanimously who have denounced these cuts and are very concerned about the transfer of the program from HUD to Commerce?

Secretary GUTIERREZ. Congressman, a little while ago someone mentioned that it would be very arrogant on our behalf to come forward with a very detailed plan, without taking into account the input, the very valuable input of this committee. So what we have brought forward is an idea, a passion for doing a better job with taxpayers's money, and working with the community, working with other constituents to come up with a better way.

Mr. MOORE OF KANSAS. Have you talked to the National Association of Counties? Have you talked to the National Council of mayors about your proposal?

Secretary GUTIERREZ. Personally, I have not. I have had some meetings with some mayors.

Mr. MOORE OF KANSAS. Secretary Jackson, have you, sir?

Secretary JACKSON. Yes, I have.

Mr. MOORE OF KANSAS. Who have you talked to, sir?

Secretary JACKSON. I spoke to the U.S. Conference of mayors and the National Association of Counties.

Mr. MOORE OF KANSAS. Did they express the same concerns that I have related here today?

Secretary JACKSON. Yes.

Mr. MOORE OF KANSAS. And you have not, Mr. Secretary?

Secretary GUTIERREZ. No, but we would like their point of view. We would like them to help us because it is somewhat easy to say no. It is a little bit harder to get our heads around how do we do a better job with taxpayers's money and figure something out and figure out a new design.

Mr. FRANK. Would the gentleman yield?

Mr. MOORE OF KANSAS. Yes, sir.

Mr. FRANK. I would just say on behalf of the Democratic side, I have checked with the subcommittee Ranking Member's staff and our staff, we have certainly not received anything. You said you wanted to work with the committee. I am not aware of any requests from either department for us to begin to talk about this. Secretary Gutierrez asked if we could have met yesterday and I apologize for the fact that we could not. But there has been no request for any consultation or input that I am aware of to the Democratic staff.

Mr. NEY. The gentleman from Texas, Mr. Hensarling?

Mr. HENSARLING. Thank you, Mr. Chairman.

Mr. Secretary and Mr. Secretary, welcome. If I understand this initiative properly, I wish you would have showed up here about 10 or 20 years ago, but better late than never. Secretary Jackson, always good to see you again, sir. You clearly are one of the most qualified individuals who has ever served in your office, and certainly your reputation precedes you.

I want to talk a little bit, since we have heard how popular the CDBG program is, and indeed it is popular with a number of mayors and city and county officials in my district in East Dallas and East Texas. But at the same time, I know that any program that essentially is handing out free money is going to be a very popular program. But that program, not unlike any other program we have here, has opportunity costs. Every dollar that goes into CDBG is a dollar that cannot be used to save Social Security. It is a dollar that cannot be used to reduce the debt that my children one day are going to inherit if we do not reform a number of these programs.

So my question is, Mr. Secretary, given all of your experience, and I know of a number of individual projects that CDBG funds have been used on that are quite good, but in an overall, macroeconomic sense, when we pour all this taxpayer money in on one end, how are we measuring success on the other end besides the

fact that we are going to spend more money next year than we did last year? How do I evaluate that the taxpayers are getting good value for their investments? And the recipients, how do we know that we are really doing anything to alleviate the blight in their neighborhoods or create economic development?

Secretary JACKSON. Congressman, I think that is a very fair question. Let me say this, I go back to 2001, 2002, with the evaluation that was done by OMB. In that process, they denoted a number of problems that existed in the program, and that they wanted outcome measures that we could statistically say that the program is working. What I did after that, as Deputy Secretary, is went to the secretary, at that time Secretary Martinez, and said we have to respond and we have to begin to be proactive as OMB has said.

So we empanelled professionals from the community development area, the industrial leaders, and members from OMB who worked side by side for the last 14 months to address exactly what you have just said, to measure the outcomes. What we did in that process is we completed the analysis and we submitted to you and this committee four alternates that can be used to address many of the issues that you said.

Let me say this, because it is important. I am pleased and I said it then and I say it now, that OMB came and made the evaluation because we would not at HUD be as far along as we are in finding remedies for the problems that we have in the Community Development Block Grant program. Yes, we can clearly say that there are communities that have been absolutely successful, and I do not doubt that, because as I said earlier, if I had to speak about it, I can tell you a number of programs in St. Louis and right here in Washington, D.C. that I oversaw that are doing extremely well.

But without measured outcomes, that is a problem. I think that if you review the alternates that we sent to you, we have addressed the issue specifically about communities and how we have a disparity in some communities versus others, as Secretary Gutierrez has said. We have addressed that issue.

We have also addressed how do you measure this in a metric system to make sure that we can document that these programs are working. I think that in many cases we are in the process we have been doing for the last two-and-a-half years, and we will continue to do it as long as we have the program. If the program is at Commerce, we will work with them to set up those same metrics so we can continue to measure.

Mr. HENSARLING. Thank you, Mr. Secretary. My time is starting to run a little short here.

Secretary Gutierrez, in your testimony, you include some fairly radical notions for inside the beltway. Number one, that we should use the best tools available to actually see if we are achieving benefits to those we have pledged to help; that we can actually consolidate programs and get more with less; that we should target resources to those who need it the most. Again, these are not radical concepts outside of the beltway.

Unfortunately, to some extent, they are radical inside, particularly the idea that we can get more with less. I know you were a Fortune 100 CEO. When you were at Kellogg's, did you ever have 18 HR departments or 18 CFOs or 18 marketing departments? And

if you did, did you reach the point of diminishing margin of utility where you could have gotten more with less?

Secretary GUTIERREZ. Yes, Congressman, I think that is an excellent point. It would be a little bit like having 18 sales departments. That is why I say the problem is not HUD; the problem is the system. If we can focus on creating and designing a new system, we would do a great job for our taxpayers around the country.

Mr. NEY. The time has expired.

Mr. Crowley of New York?

Mr. CROWLEY. I thank the Chairman and thank both secretaries for being here today, especially Secretary Gutierrez, who's from Flushing, Queens, the town that I come from. So welcome.

I welcome Secretary Jackson as well.

I think it is fair to point out, my colleague from Texas had mentioned that dollars that are put towards Community Development Block Grants are dollars that potentially could be use to save Social Security and some other laudable programs that I think the federal government now supports. I think it is also fair to say that for every cut that is made in Community Block Grant or in HUD or in Commerce is another dollar that can be given towards the tax cut for the wealthiest 1 percent in this country is wrong. I think it is important to put that on, at least for my purpose, on the record as well.

Mr. Jackson, I am going to ask you a question. It may sound very rhetorical, but it is a real question. Does this administration believe that in public housing that fighting drugs is a priority?

Secretary JACKSON. Yes.

Mr. CROWLEY. It does. I ask the question because several years ago, this administration eliminated the drug elimination program, also known as DEP and told housing authorities around the country to use their capital or operational funds to continue the good and successful works of DEP. Are you familiar with that?

Secretary JACKSON. Yes.

Mr. CROWLEY. As an aside, I am the son of a police officer in New York City for 22 years. I grew up around a lot of police officers. I know for a fact the NYPD has said that the DEP funds were vital in their fight against drug use in public housing. But this year, the New York City Housing Authority, the largest of its kind in the United States, is dealing with a \$50 million slash to its budget. They can barely maintain their voucher program, let alone or operate the DEP program.

So my question is, where is the money? If the administration truly wants to be a partner in preventing drug abuse in public housing, where is the commitment by this administration towards that end?

Secretary JACKSON. Congressman, let me say this, that when the drug elimination program was eliminated in the budget, it was not effectively eliminated. What HUD did at that point and Congress did at that point is it was the budget at that time for drug elimination was somewhere I think about \$525 million.

What they effectively did is told the housing authorities that they could utilize the monies that had been allocated for drug elimination for either capital improvement or continue to use it for drug elimination. They just did not call it drug elimination.

They put about \$490 million of the \$525 million, if I remember correctly, back into the budget. Housing authorities that had been utilizing it for that, continued to utilize it for that. Dallas is one of those housing authorities that I can specifically tell you that. Let me tell you why it was eliminated, because in many cases about 78 percent to 80 percent of the housing authorities, even when they got their drug elimination monies, were not using for that purpose. So rather than continue the facade, Congress and HUD made the decision, why don't we just give it to them and if they choose to use it, they will use it.

The last part that you said, we just put \$1.4 million back into the operating budget. We put \$1.1 million back into the Section 8 budget to make sure that we address the needs of places like New York City and others. If there is a shortfall at this point, I am just not aware of it. We did increase the budget this year and for next year in 2006.

Mr. CROWLEY. You brought up Section 8. Let me just address that for a moment. I have a housing complex in the Bronx, a housing unit in the Bronx that is 100 percent Section 8 housing. There has been some discussion about a new owner for that building who has not accepted Section 8 housing in the past. He has indicated to the people in that building that he will not accept Section 8 vouchers in the future. I brought this to the attention of the Ranking Member. Since you are here in front of me today, have you been hearing such stories around the country.

Secretary JACKSON. Yes, we have.

Mr. CROWLEY. And what do you plan to do about that?

Secretary JACKSON. If they are not budget-based vouchers and certificates, there is nothing we can do.

Mr. CROWLEY. So basically those individuals who cannot afford to stay there will go where?

Secretary JACKSON. They will be able to take their vouchers to other housing developments.

Mr. CROWLEY. Where in New York City can you do that?

Secretary JACKSON. I cannot tell you. I do not live in New York City.

Mr. CROWLEY. I don't know where else you can do that in any other part of the country that has public housing either.

I listened to what you said. You know, cuts are going all across the board here, city, state and federal as well. You have gone from \$5.7 billion to \$3.7 billion in CDBG; \$4.1 billion in HUD alone, down to \$2.6 billion, a drastic cut. My colleague asked you before, Mr. Scott, whether you agreed with the cuts. You implemented them, but do you agree with them? You did not answer his questions. I wonder if you could answer it now?

Secretary JACKSON. What I said to the Congressman then and I will say it to you, we zeroed out of our budget \$4.5 billion.

Mr. CROWLEY. Did you agree with that is what he asked you.

Secretary JACKSON. Yes, I do believe that.

Mr. NEY. The time has expired.

Mr. CROWLEY. I appreciate that. Thank you.

Mr. NEY. The gentleman, Mr. Frank.

Mr. FRANK. Mr. Chairman, there has been a lot of conversation about consultation. We have been told that the reason there are no

specifics is that they want to leave room for consultation. I must say, I do not think that is the reason. I think there is no consultation because this idea has not been taken seriously at any level.

Let me just ask, Mr. Secretary, who is writing the bill? Secretary Gutierrez, is the bill now being written?

Secretary GUTIERREZ. We are in the process.

Mr. FRANK. Who is "we"? Who is writing it? Who is writing the bill, which agency?

Secretary GUTIERREZ. We are writing it within Commerce and we plan to have a bill, a preliminary bill to you in late April.

Mr. FRANK. Okay. The Department of Commerce is writing it.

Secretary GUTIERREZ. I will find out specifically.

Mr. FRANK. Okay. I do not mean a name. I mean the agency.

Secretary GUTIERREZ. Yes.

Mr. FRANK. We have had no contact, those of us on the Democratic side, at least, have had no request for input or anything else. In fact, I rarely see such unanimity from people. There was some suggestion this was an inside the beltway thing. Well, that would be true only if the beltway were described as consisting of the Atlantic and Pacific Oceans, Canada and the Gulf of Mexico, because there is a nationwide rejection.

I have been asked today to submit material from the National Association of Housing and Redevelopment Officials and local officials, and I would ask unanimous consent that all these be put into the record.

Mr. NEY. Without objection.

Mr. FRANK. In conclusion, the President's Strengthening America's Communities proposal may have a pleasant sounding name, but it represents an unprecedented reversal of the covenant relationship between the federal government and states and localities. It is a profoundly disturbing retreat from a responsible federal community and economic development agenda.

On behalf of the National Association of Federal Credit Unions, I want to share our concern regarding the proposed changes. The National Association of Federal Credit Unions opposes moving the CDFI, the Community Development Financial Institutions, which we have jurisdiction over. The National Association of Federal Credit Unions opposes moving the fund to the Commerce Department and urges Congress to continue the fund at \$80 million level.

The Coalition of CDFI Organizations, community development financial institutions, including a lot of banks and a lot of private sector activity groups, also ask that I submit their statement expressing their very strong opposition to this program.

I do not know of any of the agencies that are involved at the local level in administering this, private citizens, elected officials, appointed officials, financial institutions. I do not know any that are for this. "Under the proposed block grant structure, CDFIs would lose the ability to apply directly to the federal government for targeted investments. The important role that modest federal dollars play in allowing CDFIs to attract private sector investment would be lost under the new proposed structure."

Now, there will be a lot more. Let me ask you, Secretary Gutierrez, if this proposal goes through and the bill that your department is writing, how much of CDBG will be available for housing? How

much of the new program will be available for help in the construction of housing?

Secretary GUTIERREZ. As I mentioned before, the overall funds would be cut by 4 percent.

Mr. FRANK. I understand that. But in the new rules, would housing be a fully eligible activity or would it be a restricted activity? Of the reduced amount of money available, because that is one of the concerns since CDBG is now used for housing, how much of that would housing be eligible for use under the new program as it is under the existing one?

Secretary GUTIERREZ. That will depend on the specific program and the specific—

Mr. FRANK. I understand, but you are writing it. What do you mean, "it depends on"? You are writing it. How are you going to write it?

Secretary GUTIERREZ. We would be writing eligibility criteria.

Mr. FRANK. Do you plan in the bill, I understand it will come to us, but in the bill that your department is writing, what is your intention regarding housing?

Secretary GUTIERREZ. Our intent is to improve the economic conditions at the local level.

Mr. FRANK. Excuse me, Mr. Secretary, that is not what I asked you. You have learned quickly how to dodge questions. I congratulate you.

In the bill that you are writing, will housing be a fully eligible use for these monies to the extent that it now is or not?

Secretary GUTIERREZ. To the extent that that helps a local community improve their economic conditions, yes.

Mr. FRANK. So if they decide that housing is good for the local economy, they could use the money for housing?

Secretary GUTIERREZ. It depends on the specific proposal.

Mr. FRANK. You are going to approve the specific proposal? Oh, that is interesting, because right now under CDBG the local communities have a lot of autonomy. So apparently, you are going to propose something that has much more federal say-so? I guess that is a reversal from what I would have thought your direction would be.

Under the proposal now, under very broad guidelines, the communities decide about CDBG. You are now telling me that whether or not a community can build housing, they would need approval from your department. That is a severe retreat in terms of the flexibility that communities have had, and I think it is one more mark against the program.

I have no further questions.

Mr. NEY. The gentlelady from Florida, who so patiently has sat here since the gavel dropped, Ms. Wasserman Schultz?

Ms. WASSERMAN SCHULTZ. Thank you, Mr. Chairman.

In the limited time I have, I noted that, Mr. Secretary Jackson, you had avoided answering the question about whether you approve of the cuts, and you are choosing not to define them as cuts. But as the Ranking Member said, there was \$4.5 billion that you are zeroing out in your budget. What is in the budget is about \$3.7 billion; \$4.5 billion minus \$3.7 billion is whatever it is. You do the math. That is a cut. So are you in favor of there being less money

now, less money in the future than there is now that funds your program, that is currently housed in your department, that will under your proposal, no longer be housed in your department?

Secretary JACKSON. Congresswoman, what I have said is that we zeroed out \$4.5 billion out of our budget. How the new legislation will look, I am not in a position to tell you.

Ms. WASSERMAN SCHULTZ. No, no, but I am not asking you that.

Secretary JACKSON. I am answering your question. I am not in a position—

Ms. WASSERMAN SCHULTZ. You are not answering my question, with all due respect, and you have not answered any of our questions no matter which way we have asked it. There, in the budget, I am not talking about your proposal, but in the budget, the number, the line item, has less money in it now than has been zeroed out from your budget, less money. I will just ask you generally. Do you support there being less money available for the programs that your department currently funds? Do you support that?

Secretary JACKSON. My position, Congresswoman, is we zeroed out \$4.5 billion.

Ms. WASSERMAN SCHULTZ. That is not a position. That is a statement.

Secretary JACKSON. May I finish? How the money will be utilized when the new legislation is written, I am not in a position to discuss that today. I think Secretary Gutierrez has said before they will bring it before the Congress for your evaluation.

Ms. WASSERMAN SCHULTZ. I think that your answer has been telling and pretty much implicitly answers the question.

Secretary Gutierrez, can you tell me what the current mission of the Department of Commerce is? And if it has anything whatsoever to do with housing?

Secretary GUTIERREZ. The current mission is to improve economic conditions throughout the country. I am not using the specific words, but I think you want the concept. It is all about encouraging economic growth, setting the environment for economic growth, for innovation, for job creation. That is the mindset that we want to apply to local communities.

Ms. WASSERMAN SCHULTZ. You stated that you think that we can do better in general. How is it that Commerce can do a generally better job than HUD on the programs that you are consolidating under your department?

Secretary GUTIERREZ. As you state, because of our mission, we are focused and our systems are focused on economic growth, on job creation, on attracting private sector capital. That is the kind of mindset that we believe we owe our people who are receiving this money so that they in turn can have access to more jobs, to more capital, to more growth.

Ms. WASSERMAN SCHULTZ. Why can't all of that be done in the Department of Housing and Urban Development? Why is it better to do it in the Department of Commerce, whose mission does not include anything related to housing?

Secretary GUTIERREZ. But our mission is all about economic growth and economic development and job creation.

Ms. WASSERMAN SCHULTZ. None of which has anything to do with housing.

Secretary GUTIERREZ. It does. If the housing is inadequate in a given community, that community will not be able to attract investment.

Ms. WASSERMAN SCHULTZ. What do you consider to be the mission of the CDBG program and affordable housing programs? Are they to create jobs?

Secretary GUTIERREZ. The mission of Commerce is to create an environment whereby we can create jobs, we can create growth, innovation and entrepreneurship. We want to apply that mindset to all of these funds.

Ms. WASSERMAN SCHULTZ. You do not feel that what you are doing here is trying to fit a square peg into a round hole?

Secretary GUTIERREZ. No, what we are trying to do here is to utilize our taxpayers's money to go to those people who need it the most.

Ms. WASSERMAN SCHULTZ. Mr. Chairman, I think it would be wise when we see this proposal that included in it should be the change in the name of HUD to UD, so that that will more clearly define what its future mission will be.

Thank you. I yield back the balance of my time.

Mr. NEY. The gentleman, Mr. Davis?

Mr. DAVIS OF ALABAMA. Thank you, Mr. Chairman. I will be extremely brief.

Given the time, Mr. Gutierrez, let me ask you in 30 seconds, tell me in the most succinct language possible, tell me the single biggest obstacle to minority business development in this country, for the sake of time, in 30 seconds or less if you can, just a couple of phrases.

Secretary GUTIERREZ. I would say based on my experience, the single biggest obstacle would be access to capital.

Mr. DAVIS OF ALABAMA. Tell me how any of the changes that are being proposed would address the problem of access to capital for minority business?

Secretary GUTIERREZ. Access to capital is done through beneficial loans. It is done through private sector investment.

Mr. DAVIS OF ALABAMA. No, tell me how these specific changes, the cuts and the consolidation, would take us a step closer to dealing with the access to capital problem?

Secretary GUTIERREZ. Because our mission in Commerce is to help businesses, to help small businesses, large businesses. We have a minority business—

Mr. DAVIS OF ALABAMA. I understand that, but not to cut you off, but as you know our time is pressed. Tell me how the changes, tell me how the consolidation and the cuts would take us further down the path to dealing with the lack of access to capital.

Secretary GUTIERREZ. Because we are in the business of creating jobs, and jobs are created through capital. And that is what we do at Commerce.

Mr. DAVIS OF ALABAMA. So no specific explanation of why the consolidation or cuts would work.

Secretary Jackson, a similar question to you, the single biggest problem in 30 seconds or less, or the single biggest obstacle to providing more affordable housing? Thirty seconds or less.

Secretary JACKSON. I think we have addressed many of the issues to addressing affordable housing. We have the American Dream Downpayment—

Mr. DAVIS OF ALABAMA. No, no, no. Tell me the single biggest remaining obstacle to expanding affordable housing.

Secretary JACKSON. Well, down payment and closing costs.

Mr. DAVIS OF ALABAMA. Tell me how the proposed cuts or the consolidation would take us a step closer to addressing that problem.

Secretary JACKSON. First of all, that portion of HUD is in no way being affected.

Mr. DAVIS OF ALABAMA. Okay. Well, the point that I am making, and I will not debate you for the sake of a limited time frame, the fact that we have to go vote, but my concern, gentlemen, is there is an embrace of the idea of cuts because we need to save money. The reality is that these cuts are minimal as things go in the course of a \$2.9 trillion budget, but yet this minimal amount of money is important to accomplishing the goals of these programs.

I would be more comfortable and a lot of people on the committee would be more comfortable if there was some correlation between these changes, these consolidations and these cuts and the missions of your two agencies. I have not heard it today. I do not think my colleagues have heard it. All that we have heard is the cuts are good because we need to save money. The reality is, this does not save a lot of money. I would feel a lot better, as would my colleagues, if the cuts took us, and the changes took us a step further to accomplishing the goals of your agencies.

I yield back the balance of my time.

Mr. NEY. The vote is on. We will know in 30 seconds or less whether we will be back for a second panel.

The Chair notes that some members may have additional questions, of course, for this panel, which they might want to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions for these witnesses and to place their responses in the record.

With apologies to OMB, I am sorry for the inconvenience. It is hard to predict the votes today. Any statements you would have or testimony for the record, we would welcome for the record.

[The prepared statement of Clay Johnson III can be found on page 73 in the appendix.]

One thing further for the Secretaries, I would note some of the members are leaving for the funeral of the Pope. So as a result, some people will not be able to be back and plans have changed for people leaving the capital.

With that, I want to thank the members of the panel and OMB. Again, thank you very much.

[Whereupon, at 3:38 p.m., the committee was adjourned.]

A P P E N D I X

April 6, 2005

Opening Statement

**Chairman Michael G. Oxley
Committee on Financial Services****Strengthening America's Communities: A Review of the President's FY2006
Budget Initiative**Wednesday, April 6, 2005

Today, the Financial Services Committee welcomes the Secretary of the Department of Commerce, Carlos M. Gutierrez, and the Secretary of the Housing and Urban Development, Alphonso Jackson, to discuss the details of the President's initiative to overhaul the way the Federal government funds and administers community and economic development.

Strengthening America's Communities, proposed in the President's FY2006 budget proposal, is a new \$3.7 billion program which seeks to reorganize and consolidate this nation's community and economic development initiatives into a new program under the direction of the Department of Commerce. In addition to consolidating these programs under the Department of Commerce, the President's proposal establishes strong accountability standards and a more flexible use of funds so that the communities most in need will be assisted.

Currently, there are more than 35 Federal programs in seven agencies that provide \$16 billion in grants, loans and tax incentives to encourage community development and economic revitalization. The Administration maintains that some of these 35 programs duplicate and overlap one another, have few accountability standards and have inconsistent criteria for eligibility. By streamlining the process and consolidating these programs, the Administration believes that federal funds marked for community development efforts can be more accurately targeted and used.

I applaud the Administration stated goal of creating a more targeted unified program with stronger accountability standards and more flexibility. In addition, I support targeting funding to high poverty areas in an effort to make a concrete difference in distressed areas. Yet, there are still many unanswered questions regarding the President's new initiative and we have scheduled this hearing today in an effort to learn more of the specifics regarding the President's new proposal and in hopes of gaining a clearer picture of just how this new proposal will continue the goals of community development for our distressed communities.

Oxley, page two
April 6, 2005

On March 2, this Committee held a hearing on the President's FY2006 Budget proposal. As Secretary Jackson will remember, much of the discussion at that hearing centered on the President's new "Strengthening America's Communities" initiative. Questions were raised on how this new program would be structured; whether the Department of Commerce has the infrastructure and tools necessary to adequately assess the community development and housing affordability needs in communities across the country; and how the thirty-five programs will collapse into grant programs that will continue to meet the community development needs across this country.

I know that many here today are anxious to learn more about the President's bold new initiative. Many of us on this Committee and in this Congress are hearing daily from constituents back home that have first-hand knowledge of how important programs such as the Community Development Block Grant (CDBG) program are to their communities. They are asking questions and raising concerns about this new program initiative and whether it can continue to meet the critical economic and developmental needs of our communities.

We trust that you will address many of those questions here today and that we will be able to work together in the months ahead to address your concerns for Federal initiatives that not only meet strong accountability standards and allow for greater flexibility but also continue to promote homeownership, community development, and economic opportunity in our communities across this country.

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**OPENING STATEMENT OF
CONGRESSMAN EMANUEL CLEAVER, II
COMMITTEE ON FINANCIAL SERVICES**

**HEARING ENTITLED "STRENGTHENING AMERICA'S COMMUNITIES: A
REVIEW OF THE PRESIDENT'S FY2006 BUDGET INITIATIVE"**

WEDNESDAY, APRIL 6, 2005

Thank you Chairman Oxley and Ranking Member Frank for convening this hearing today on the President's "Strengthening America's Communities" proposal. Given the negative impact this proposal will have on my constituents, I look forward to hearing the testimony of Secretary Gutierrez and Secretary Jackson.

Mr. Chairman, you may recall that the appearance of Secretary Jackson before the Committee on Wednesday March 2, 2005 resulted in more questions being raised than answers about the President's proposal. On multiple occasions, Secretary Jackson testified that the Department of Housing and Urban Development (HUD) had no specific information related to the President's proposal or what was to become of the 18 programs that would be consolidated and/or cut.

This absence of detail is troubling given the short timetable that would be necessary to implement the President's proposal. However, the basic foundation of the proposal is so flawed that additional details are unlikely to make any difference. At its core, I am particularly concerned about cuts in funding for the Community Development Block Grant Program (CDBG) and transfer of the program from HUD to the Department of Commerce for consolidation with 17 other programs. The President would fund this new program at a level that is 35% lower than the combined FY 2005 appropriated level for all 18 programs. The pro-rata reduction for CDBG alone would be \$1.42 billion.

This troubles me because as former Mayor of Kansas City, Missouri I have first hand experience with the CDBG program and the Section 108 loan program. Despite what some people may say in Washington, D.C. I can tell you that these programs are effective and have achieved quantifiable positive results. In addition, given the flexible nature of the CDBG program, these cuts will severely limit the ability of states and localities to address the local housing and community development needs that are unique to their region. In Kansas City, Missouri alone, CDBG funded 80 programs including legal aid, crime prevention, homelessness assistance, small business development, sewer system improvement, senior centers, neighborhood preservation, and family services centers.

Unless Secretary Gutierrez and Secretary Jackson unequivocally testify to the contrary, by transferring CDBG from HUD to Commerce, housing initiatives will more than likely be ineligible to receive funds. As a result, mayors and local officials will lose an invaluable resource for creating affordable housing. For example, during my tenure as

Mayor, my administration identified 60,000 single family homes in need of rehabilitation or repair. The CDBG program directly contributed to the rehabilitation and construction of 12,000 single family homes. However, the President's proposal will in essence prevent the construction or rehabilitation of the remaining 48,000 homes and crush the dreams of 48,000 Missouri families who wish to own an affordable home.

Mr. Chairman, on its face the President's proposal seems to have been conceived without the consultation of our nation's municipalities. Thus, I would like to invite Secretary Jackson, Secretary Gutierrez and the President to come to my district and to take a tour of the Kansas City Missouri metropolitan area. Since the CDBG program and the Section 108 loan program have been instrumental in revitalizing Kansas City, Missouri, I will show them building after building, business after business, home after home, and job after job that would not have been realized without these vital programs.

The CDBG program has a proven record of success like no other federal program and its list of achievements include creating affordable homes, revitalizing impoverished communities, and creating jobs. I sincerely hope that Secretary Gutierrez and Secretary Jackson will counsel the President to drop the "Strengthening America's Communities" proposal because it will have the opposite effect on our nation.

Opening Statement

Congressman Paul E. Gillmor (R-OH)

Committee on Financial Services

April 6, 2005

Hearing entitled: "Strengthening America's Communities: A Review of the President's FY2006 Budget Initiative."

I want to thank Chairman Oxley for calling this important hearing to discuss the President's proposal to consolidate our nation's community development efforts. This proposal represents an ambitious plan to reorganize 18 Federal community and economic development programs spanning 5 agencies, into a new Strengthening America's Communities Initiative housed at the Department of Commerce. President Bush has often referred to the need to streamline government, eliminate wasteful programs, and increase efficiency and accountability across the board. There is no doubt that this goal has driven the SAC proposal.

While some may question the method by which the President has chosen to streamline our community development efforts, I believe that now is a good time for this debate. Studies have shown that increasingly, communities with the most need of Federal community development assistance are receiving less and less funding. The centerpiece of any discussion of community development and indeed, the centerpiece of the President's proposal is HUD's Community Development Block Grant Program, or CDBG.

The mission of the CDBG program, created more than 30 years ago, is to provide for the development of viable urban communities for low- and moderate-income people. There is no doubt that the CDBG program has done quite a bit of good in the past 30 years, but with an antiquated eligibility formula, those communities most in need are those left behind. In HUD's recent study on the CDBG formula, several alternatives are offered that would redistribute CDBG dollars and allow deep-funding of severely distressed communities and towns like those in Northwest Ohio which have experienced tough economic times and job loss.

I look forward to hearing the Administration discuss past successes and failures of CDBG and other community and economic development programs as Congress debates the President's proposal.

Thank you for calling this hearing, Mr. Chairman.

**OPENING REMARKS OF THE HONORABLE RUBEN HINOJOSA
COMMITTEE ON FINANCIAL SERVICES
“STRENGTHENING AMERICA’S COMMUNITIES: A REVIEW OF THE
PRESIDENT’S FY2006 BUDGET INITIATIVE”
APRIL 6, 2005**

Chairman Oxley and Ranking Member Frank, I want to express my sincere appreciation for you holding this extremely important and very timely hearing today. I want to welcome back to the Committee Secretary Jackson and greet Secretary Gutierrez for the first time.

I look forward to their testimony and to that of Clay Johnson III, Deputy Director for Management, Office of Management and Budget (OMB).

Proposed by President Bush on February 3, 2005, the “Strengthening America’s Communities Initiative” (SAC) is, at best, a misguided attempt to reorganize and consolidate our nation’s community and economic development initiatives into a new program under the direction of the Department of Commerce. A more appropriate name for it might be the “Weakening America’s Communities Initiative.” This initiative is being opposed by both bodies of Congress on a bipartisan basis, and I believe that our witnesses need to explain the rationale behind this proposal and why they continue to support it.

Each and every issue our nation faces needs to be pursued with diligence and care, and must remain consistent with the values we cherish. However, the Administration’s Fiscal Year 2006 budget and this initiative fail to do that and are completely out of step with our country’s needs.

As a businessman, I know that this budget is not the way to solve our financial woes. As passed by the House, the proposed budget threatens our economy and fails to take the necessary steps toward fiscal responsibility.

As we are all more than aware, the budget mistakenly recommends cutting the Community Development Block Grant Program by \$3.7 billion, or about 35 percent, and transferring jurisdiction over the program to the Department of Commerce. The CDBG program provides funds for more than 1,000 communities throughout the country for housing and community development. In my district alone, the proposed cuts could result in a net loss of funding of almost \$15 million.

CDBG is the source of funding for important technical assistance dollars accessed by tribes through the National American Indian Housing Council, the National Council of La Raza, the Enterprise Foundation, the Local Initiatives Support Corporation, Hispanic Serving Institutions, Historically Black Colleges and Universities and the Housing Assistance Council. Reducing the funding levels for the CDBG program will devastate all of these organizations.

I understand that our nation has a record deficit and an ever-increasing national debt. Several representatives from this Administration have testified that this situation justifies reducing funding for the CDBG program, eliminating the Rural Housing Economic Development program, and reducing rural housing program funding and other such cuts. If they truly believe this, then they need to reevaluate their priorities. Our communities come first. My constituents come first, and they have expressed their opposition to this initiative loud and clear. What they and many others, both the man on the street and analysts, is that now is not the time to transfer the jurisdiction over the CDBG fund and other HUD programs to the Department of Commerce.

We must maintain the current \$4.7 billion CDBG program funding level and prevent jurisdiction over the program from being transferred to the Commerce Department where staff has little to no familiarity with the program and where the CDBG program will be forced to compete with other programs, resulting in even less funding for such an important program.

To ensure that the CDBG program is not transferred to Commerce, I have cosponsored H.Con.Res 108 sponsored by Congresswoman Carolyn C. Kilpatrick. The bill expresses the sense of the Congress that the Community Development Block Grant program should remain under the administration of the Secretary of Housing and Urban Development. I encourage all of my colleagues to cosponsor this important legislation.

The Administration's proposed budget and this misnamed initiative will do more harm than good. It will potentially devastate the people of the 15th Congressional District.

At this point, Chairman Oxley, I would ask unanimous consent that letters that I have received from officials in my district opposing this initiative, specifically changes to the CDBG program, be included in today's hearing record.

I would also like to note that I received letters from over 30 Boy Scouts in my district and 4 Girl Scouts Council members in opposition to this initiative.

Having said that, Chairman Oxley, I yield back the remainder of my time.

The State of Texas
House of Representatives

CAPITOL OFFICE:
P.O. BOX 1910
AUSTIN, TEXAS 78768-1910
VOICE: (512) 463-0578
FAX: (512) 463-1482
E-MAIL: veronica.gonzales@house.state.tx.us



DISTRICT OFFICE:
4900 N. 106th STREET, SUITE C-2
M-FALLEN, TEXAS 78504
VOICE: (956) 686-1501
FAX: (956) 686-7131

Veronica Gonzales
STATE REPRESENTATIVE
DISTRICT 41

March 2, 2005

The Honorable Rubén Hinojosa
United States House of Representatives
2463 Rayburn House Office Building
Washington, DC 20515

Dear Representative Hinojosa:

It has come to my attention that President Bush has recommended no federal funds to be allocated to the Community Development Block Grant Program. While I am aware of the financial state of the United States Government, reducing funds on this particular program would be very inequitable and detrimental in the progress that not only my district has made because of these funds, but for the entire international border region.

I ask that you encourage your legislature to support the Community Development Block Grant as well as the funds that it currently receives. Thank you for your attention to this matter and if there is anything that I can do, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads "Veronica Gonzales".

Veronica Gonzales

Mar-09-08 06:30pm From

T-581 P.003/008 F-366

MARI LOPEZ
ADMINISTRATIVE ASSISTANT
NORA BALINAS
OFFICE MANAGER



P. O. BOX 515
FALFURRIAS, TEXAS 78335
PHONES: OFFICE (361) 385-5804
EXTENSIONS: 234, 235
FAX: (361) 385-8068

JOE B. GARCIA
BROOKS COUNTY JUDGE

January 24, 2005

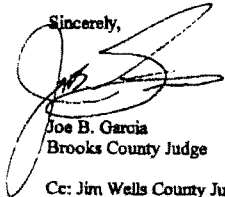
Congressman Ruben Hinojosa
311 North 15th Street
McAllen, Texas 78501

Dear Congressman Hinojosa,

We have been informed that the President is seriously considering reducing the Community Development Block Grant program and it could be cut as much as 50%. Especially since the community development program has existed for over 30 years, cities and counties use this program to help meet their basic needs of water, sewer, housing and other essential programs that are vital to a strong, local economy.

Thank you for lobbying against this effort that could drastically effect the strength of America's cities and counties.

Sincerely,



Joe B. Garcia
Brooks County Judge

Cc: Jim Wells County Judge Arnold Saenz
Duval County Judge E.B. Garcia
Kleberg County Judge Pete De La Garza

RESOLUTION

STATE OF TEXAS
 COUNTY OF HIDALGO

**OPPOSING ELIMINATION OF THE
 COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM
 (CDBG)**

Whereas, President Bush has proposed the elimination of the Community Development Block Grant program in his fiscal year 2006 budget, which funds a myriad of social service, economic development, infrastructure projects, and housing programs in this community, and

Whereas, in Hidalgo County and in communities throughout the nation, thirty years of Community Development Block Grant funding has developed a strong network of relationships between this local government, residents and the many non-profit agencies that provide services and help make possible our commitment to our neighborhoods, and

Whereas, Hidalgo County recognizes that the Community Development Block Grant program is a partnership of Federal, state, and local government, business, non-profit and community efforts, and that the services funded by the CDBG program, administered by the local government and often delivered by local non-profit organizations, relies heavily on the dedication of and good will of our combined efforts,

Whereas, this community recognizes all the participants whose hard work and devotion to the neighborhood and their low- and moderate-income residents help insure the quality and effectiveness of the Community Development Block Grant program, and

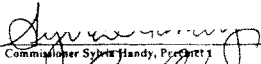
Therefore Be It Resolved, that as the County Judge and County Commissioner's of the County of Hidalgo be it known that the County of Hidalgo opposes the proposed elimination of the Community Development Block Grant Program.

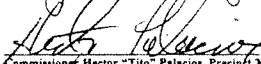
Be It Further Resolved, that Hidalgo County hereby petitions the U.S. Congress and Administration to recognize the outstanding work being done locally and nationally by the Community Development Block Grant program, and of its vital importance to the community and to the people who live in its lower income neighborhoods, to strongly oppose any proposal to eliminate the Community Development Block Grant Program, and


Be It Further Resolved, that copies of this resolution be conveyed to the appropriate elected and appointed officials of the Federal government and that Hidalgo County's name be added to the roll of those committed to the preservation and full funding of the Community Development Block Grant program and maintenance of its essential features over the course of this, and the next session of Congress.

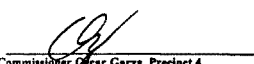
CONSIDERED AND ADOPTED this 1st day of March, 2005 at a regular meeting of the Hidalgo County Commissioner's Court at which a quorum was present and which was held in accordance with TEXAS GOVERNMENT CODE, TITLE 5, SUBTITLE A., CHAPTER 551, enacted by Acts 1993, 73rd Leg., ch. 268, S 1, effective September 1, 1993.




Commissioner Sylvia Handy, Precinct 1



Commissioner Hector "Tito" Palacios, Precinct 13

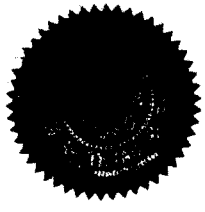

Commissioner Joe Flores, Precinct 3


Commissioner Oscar Garza, Precinct 4


Honorable Ramon Garcia, County Judge

ATTEST:


Juan De Dios Salinas
County Clerk



APPROVED BY
COMMISSIONERS' COURT
ON: MAR - 1 2005

RESOLUTION 06-03-05

A RESOLUTION OF THE CITY OF ALAMO, TEXAS, OPPOSING ELIMINATION OF THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM (CDBG).

WHEREAS, President Bush has proposed the elimination of the community Development Block Grant program in his fiscal year 2006 budget, which funds a myriad of social service, economic development, infrastructure projects, and housing programs in this community; and

WHEREAS, in the City of Alamo, Texas and in communities throughout the nation, thirty years of Community Development block Grant funding has developed a strong network of relationships between this local government, residents and the many non-profit agencies that provide services and help make possible our commitment to our neighborhoods; and

WHEREAS, the City of Alamo recognizes that the Community Development Block Grant program is a partnership of Federal, state, and local government, business, non-profit and community efforts, and that the services funded by the CDBG program, administered by the local government and often delivered by local ono-profit organizations, relies heavily on the dedication of and good will of our combined efforts; and

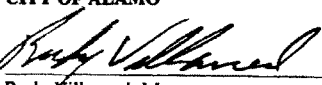
WHEREAS, this community recognizes all the participants whose hard work and devotion to the neighborhood and their low and moderate income residents help insure the quality and effectiveness of the Community Development block Grant program; and

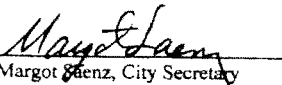
THEREFORE BE IT RESOLVED, that as the Mayor and Board of Commissioners of the City of Alamo, Texas be it known that the City of Alamo opposes the proposed elimination of the Community Development Block Grant Program (CDBG).

BE IT FURTHER RESOLVED, that the City of Alamo hereby petitions the U.S. Congress and Administration to recognize the outstanding work being done locally and nationally by the Community Development Block Grant program, and of its vital importance to the community and to the people who live in its lower income neighborhoods, to strongly oppose any proposal to eliminate the Community Development Block Grant Program; and

BE IT FURTHER RESOLVED, that copies of this resolution be conveyed to the appropriate elected and appointed officials of the Federal government and that the City of Alamo's name be added to the roll of those committed to the preservation and full funding of the Community Development block Grant program and maintenance of its essential features over the course of this, and the next session of Congress.

CONSIDERED AND ADOPTED this the 15th day of March 2005 at a regular meeting of the Board of Commissioners of the City of Alamo, Texas at which a quorum was present and which was held in accordance with TEXAS GOVERNMENT CODE, TITLE 5, SUBTITLE A, CHAPTER 551, enacted by acts 1993, 73rd Leg. Ch.268, S 1, effective September 1, 1993.

CITY OF ALAMO

Rudy Villarreal, Mayor

ATTEST:

Margot Saenz, City Secretary



RESOLUTION 2005-03-03

WHEREAS, President Bush has proposed the elimination of the Community Development Block Grant program in his fiscal year 2006 budget, which funds a myriad of social service, economic development, infrastructure projects, and housing programs in this community; and

WHEREAS, Hidalgo County and its communities throughout the nation, thirty years of Community Development Block Grant funding has developed a strong network of relationships between this local government, residents and the many non-profit agencies that provide services and help make possible our commitment to our neighborhoods; and

WHEREAS, Hidalgo County recognizes that the Community Development Block Grant program is a partnership of Federal, State, and Local Government, business, non-profit and community efforts, and that the services funded by the CDBG program, administered by the local government and often delivered by local non-profit organizations, relies heavily on the dedication of and good will of our combined efforts; and

WHEREAS, this community recognizes all the participants whose hard work and devotion to the neighborhood and their low - and moderate - income residents help insure the quality and effectiveness of the Community Development Block Grant program; and

THEREFORE, BE IT RESOLVED, that as Mayor and City Council of the City of Donna, he it knows that the City of Donna opposes the proposed elimination of the Community Development Block Grant.

BE IT FURTHER RESOLVED, that the City of Donna hereby petitions the U.S. Congress and Administration to recognize the outstanding work being done locally and nationally by the Community Development Block Grant program, and of its vital importance to the community and to the people who live in its lower income neighborhoods, to strongly oppose any proposal to eliminate the Community Development Block Grant Program; and

BE IT FURTHER RESOLVED, that copies of this resolution be conveyed to the appropriate elected and appointed officials of the Federal government and that the City of Donna's name be added to the roll of those committed to the preservation and full funding of the Community Development Block Grant program and maintenance of its essential features over the course of this, and the next session of Congress.

Passed, Approved and Adopted on this the 15th day of March 2005 at a Regular Council Meeting of the Donna City Council at which a quorum was present.



Ricardo L. Morales
Ricardo L. Morales
Mayor

Attest:

Martha Alvarado
Martha Alvarado
City Secretary

**RESOLUTION #2005-17
OPPOSING ELIMINATION OF THE COMMUNITY DEVELOPMENT BLOCK
GRANT PROGRAM
(CDBG)**

WHEREAS, President Bush has proposed the elimination of the Community Development Block Grant Program in his fiscal year 2006 budget, which funds a myriad of social service, economic development, infrastructure projects, and housing programs in this community, and

WHEREAS, in the City of Mercedes and in communities throughout the nation, thirty years of Community Development Block Grant funding has developed a strong network of relationships between this local government, residents and the many non-profit agencies that provide services and help make possible our commitment to our neighborhoods, and

WHEREAS, in the City of Mercedes recognizes that the Community Development Block Grant program is a partnership of Federal, state, and local government, business, non-profit and community efforts, and that the services funded by the CDBG program, administered by the local government and often delivered by local non-profit organizations, relies heavily on the dedication of and good will of our combined efforts, and

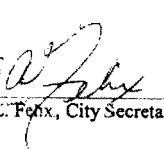
WHEREAS, this community recognizes all the participants whose hard work and devotion to the neighborhood and their low-and moderate-income residents help insure the quality and effectiveness of the Community Development Block Grant program, and

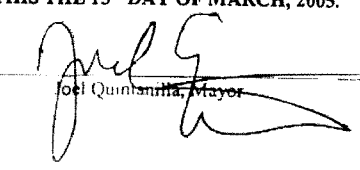
THEREFORE, BE IT RESOLVED, that as the Mayor and City Commissioners of the City of Mercedes, Texas be it known that the City of Mercedes opposes the proposed elimination of the Community Development Block Grant Program; and

BE IT FURTHER RESOLVED, that the City of Mercedes hereby petitions the U.S. Congress and Administration to recognize the outstanding work being done locally and nationally by the Community Development Block Grant program, and all of its vital importance to the community and to the people who live in its lower income neighborhoods, to strongly oppose any proposal to eliminate the Community Development Block Grant Program; and

BE IT FURTHER RESOLVED, that copies of this resolution be conveyed to the appropriate elected and appointed officials of the Federal government and that the City of Mercedes' name be added to the roll of those committed to the preservation and full funding of the Community Development Block Grant program and maintenance of its essential features over the course of this, and the next session of Congress.

PASSED, APPROVED AND ADOPTED THIS THE 15th DAY OF MARCH, 2005.

ATTEST

Arcelia L. Fox, City Secretary


Joel Quintanilla, Mayor

Congressman Jim Matheson**Financial Services Committee Hearing
on the
President's "Strengthening America's Communities" Proposal**

Chairman Oxley, Ranking-Member Frank, I want to express my appreciation to you for holding this important hearing. This proposal is a significant policy change that requires the thorough review and consideration of Congress, and I am happy that this hearing is being held as a venue to begin that closer examination of the President's "Strengthening America's Communities" proposal.

I appreciate the panel of witnesses that we have today. The broad range of agencies that they represent, the Department of Commerce, the Department of Housing and Urban Development, and the Office of Management and Budget, demonstrates the broad reach of this proposal and reinforces the need for congressional scrutiny.

As I have reviewed the information available on this proposal and each of your testimonies, I have some specific concerns about the implications of such reform. I would like to outline these potential areas, and I hope that additional information can be provided on each throughout the course of this hearing.

First, the Community Development Block Grant (CDBG) has served for the last thirty years as an important tool in helping local communities address challenges with affordable housing, blight, public services, infrastructure development, and economic growth. One of the greatest assets of this program, in my mind, is its flexibility. The way CDBG works would never look the same from community to community, nor should it. One of the great aspects of CDBG is that local officials can determine local priorities and that CDBG funds can be used in relation to those specific, local needs.

These funds are used to complement other federal and local government funds and private investments. Together, these programs address a variety of needs throughout communities. One of my concerns is that the Administration has proposed the transfer of this program (and several others) to the Department of Commerce, because it believes, as evidenced by Secretary Gutierrez's opening statement, that this new program should be about "creating the conditions for economic growth and opportunity." This reliance on the creation of jobs and the role of the private sector in creating economic opportunity, does not recognize that many of the community development functions of CDBG, including housing, will not be filled only by creating employment opportunities.

In addition, while progress should be expected from CDBG investments, it seems that the Administration is contemplating an ideal situation in which this new programmatic funding would decrease from year to year (beginning with this fiscal year) because the

problems of the people being served would be being eliminated. This undervalues the complexity of the poverty and the housing objectives CDBG works to address.

While simplification of programs is a laudable goal, the consolidation of many of these programs does not address their unique functions or strengths. It is not local communities and recipients of these funds that are clamoring for a streamlined process, rather they are united in saying that the current system for CDBG is most successful. In communities throughout my home state of Utah, CDBG funds are being successfully employed in a broad range of activities, from rehabilitating shelter housing to transportation of food to food banks, to serving seniors.

Related concerns include potential adjustments in the formula for awarding funds. Adjustments that only focus on the poverty level for a given municipality or other such indicator of need may miss many of the low and moderate income individuals currently being served by CDBG who live in more affluent or middle-income cities. In addition, this focus may not recognize the very unique needs of rural communities, where narrowly focusing funds in one area may not be the most effective method of addressing the diverse needs. The dispersion of CDBG funds throughout communities and programs does not necessarily mean that the effect is being diminished. In fact, because CDBG funds *already* leverage private funds so effectively, it often means that much more is being accomplished in local communities because CDBG funds are involved as the first support for so many projects.

Finally, while contemplating potential changes to the formula for CDBG, there may be room for looking at how much funding must be devoted to "hard-costs" versus "soft-costs." Adjustments in these numbers would create greater flexibility for local communities.

Another related issue is the effect on Community Development Financial Institutions. With the Administration's proposal, there will not be the current capability to apply for targeted investments. Rather, the ability of these Financial Institutions to leverage federal dollars in creating significant private sector investment will be mitigated.

These are not all of the potential areas at which Congress must look when contemplating such a broad proposal. However, they represent a first step. For my part, I am highly skeptical of dismantling such successful programs, under any pretext, and I am hopeful that due consideration will be given to the implications that such changes will have on the lives of so many individuals in every congressional district throughout the country.



*APRIL 6, 2005 TESTIMONY OF:
CARLOS M. GUTIERREZ
SECRETARY OF COMMERCE*

*BEFORE THE:
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES*

“STRENGTHENING AMERICA’S COMMUNITIES INITIATIVE”

OPENING

Chairman Oxley, Ranking Member Frank, members of the Committee:

Thank you for the opportunity to appear before you to discuss the President’s Strengthening America’s Communities Initiative. It is my distinct pleasure to be here today alongside my distinguished colleagues, Secretary Jackson and Deputy Director Johnson – both outstanding members of the President’s team.

The issue before the Committee today, the Strengthening America’s Community Initiative, has garnered a great deal of attention and has raised important questions about how we can best serve the American people. I know how important these issues are to the members of this Committee, the Congress, and the people you represent. I hope that through today’s hearing, I am able to provide useful insight into the President’s proposal.

The President and the Administration start with the belief first and foremost that the tremendous economic prosperity America enjoys has not reached all corners of our country. There are areas experiencing high levels of unemployment and poverty that deserve – that need – federal assistance, and the President is committed to providing that assistance.

The President and this Administration also believe that while the federal government has a significant role in supporting community and economic development initiatives, there is no reason why the federal delivery system of these important resources should be disjointed, duplicative, and overly complex. There has got to be a better way – and I believe that the President’s Strengthening America’s Community Initiative is critical to the economic health and well-being of those communities that need assistance the most.

BUILDING THE CASE

As the 21st Century economy emerges, there are great opportunities that lie ahead. There are also great challenges. To deal with the new challenges of the 21st Century, we must apply new solutions and new approaches to best serve those most in need. We cannot expect to meet tomorrow’s challenges with yesterday’s tools. Over the last 40-plus years, the federal government has spent over \$100 billion dollars on anti-poverty programs. Certainly, our programs to assist our citizens have played an important role in providing individuals in need necessary services, not to mention a sense of dignity.

But the federal government’s record regarding community-based anti-poverty programs, such as we are discussing here today, is mixed.

Yes, we can all point to individual programs or projects that have been successful; but what we cannot do is adequately quantify the overall benefit of the federal expenditures over the long term. We all share a desire to help struggling communities. Is it asking too much that we also measure, over time and with the very best tools available to us, the overall benefit to those we have pledged to assist? I think we best do that by demanding quantifiable results for the people for which these programs exist. The debate is not between spending money or not spending money; it's between settling for the status quo or seeking to do better. The President believes we can do better than our current system.

If those of us in this room were given the task of designing, from scratch, the federal delivery system for community and economic development resources, I'm sure we'd have our differences, but I am convinced we would not develop a system that involves 35 separate programs spread across seven different cabinet agencies.

That's where we are today. American communities face a federal maze of programs and departments. Dealing with the federal government does not have to be a daunting task. We can, and should, do better on behalf of America's communities.

DESCRIBING THE INITIATIVE IN BROAD STROKES

The President's Strengthening America's Communities Initiative would take 18 of the 35 federal community and economic development programs – principally the direct grant programs – and consolidate their funding into a single, new grant program called Strengthening America's Communities.

This consolidation would greatly ease access to the federal system. For distressed communities with limited resources and expertise, the President's plan reduces the number of federal bureaucracies they need to deal with from 18 to 1. I think that's important. The federal government should not require communities already short on resources to devote a large proportion of those resources to negotiate a myriad of federal bureaucracies.

Much of the debate surrounding this proposal is focused on the level of funding proposed in the President's budget. The Administration believes that by better focusing these resources we can achieve greater results with the funding level proposed in the President's budget. I believe it is fair to say that there is always significant give and take on what an appropriate level of funding is for a given program or set of programs. While these debates are appropriate and healthy, it is important that the need for significant reforms not get lost in the annual debate on appropriate funding levels. Having said that, please allow me to bring an important fact to the Committee's attention. In FY 2005, the federal government will spend on the overall suite of community and economic development programs a total of \$16.2 billion. The President's proposed budget for FY 2006 calls for overall spending for community and economic development programs of \$15.5 billion. This represents a 4% decrease – not the major reduction that some are claiming.

At the end of the day, the President and this Administration are committed to targeting federal assistance toward those areas most in need. Clearly, the challenge of substantially reducing poverty and helping communities transition to 21st Century economies cannot be taken lightly. Those communities that face the biggest challenges should receive the most assistance from the federal government. But we as the government can't do it alone. Yes, the government is an important part of equation, but not the only part.

COMMERCE'S STRENGTHS

The areas that have been most successful in reducing poverty and creating economic prosperity are those areas that have successfully leveraged the private sector. The best anti-poverty program is a good job.

The Department of Commerce is focused on building prosperity. In today's economy, we must recognize that to achieve prosperity our community and economic development efforts must be strategically aligned. By making sound investments in community development we lay the foundation for successful economic development that attracts private sector investment and higher-wage jobs. These successes lead to higher tax revenue at the local level that in turn can result in more community and economic development.

One of the key reasons the President selected the Department of Commerce as the home for the new program is that of all the federal departments engaged in community and economic development, the Commerce Department works closest with the private sector, and has had the most success in leveraging private sector resources. Commerce also has a strong record in grant administration.

While the proposal is to consolidate funding for the 18 programs into one new program, the Administration intends the new program to offer communities broad flexibility in the use of the funds. We recognize that each community is different and will need to take a different road to tackle its individual community and economic development challenges.

LEGISLATIVE PROPOSAL

The Administration will submit legislation to Congress to provide more detail on the Initiative. We look forward to working with the Congress and our stakeholders as the bill moves through the legislative process.

The underlying premise of the President's proposal enjoys diverse support. Experts on development including the Initiative for a Competitive Inner City, the Progressive Policy Institute, and the U.S. Council on Competitiveness have all called for some form of consolidation of the federal community and economic development portfolio. These organizations have recognized that the current system is not designed optimally and places undue burdens on America's most distressed communities.

We acknowledge that there is a good deal of misinformation surrounding this proposal. Based on what I've heard over the past few weeks, I think it is important to immediately dispel some common misperceptions.

First, we seek to expand flexibility for communities—not limit it. Under the President's proposal, funds would flow directly to communities and states in a formula grant form. In general, the types of projects that communities currently undertake with federal community and economic development programs will be eligible under Strengthening America's Communities. What we ask for in exchange for this broad flexibility is an agreement on performance measures so we can quantify the benefits at both the community level and program level over the long term.

Second, this initiative bolsters local control. By using a formula grant mechanism for the bulk of the funds, communities and states will have more control and can better prioritize the expenditure of development funds based on local priorities. We'd rather have local organizations make their case for grant funding to their local city hall or state capitol as opposed to federal bureaucrats here in Washington.

Third, the President is committed to easing bureaucratic red tape. This is consistent with the President's Management Agenda introduced in 2001. By streamlining the number of bureaucracies from 18 to 1, we simplify access to federal assistance—especially for those communities with the greatest need.

Finally, the President is committed to ensuring that the most-distressed communities get the most assistance. While we anticipate the vast bulk of CDBG entitlement communities will qualify for the new program, our intent is to focus resources in the areas of greatest distress. Many areas, including poor, urban and rural communities, would see an increase in their federal assistance compared to the current system.

In order to make the Initiative the best program our government can offer, the President has directed me to gather the best and brightest of our nation's economic and community development professionals to provide advice and recommendations on all policy issues involved in implementing the Initiative. I am pleased to announce that I have formed and assembled that Advisory Committee, and it will have its inaugural meeting next Thursday and Friday, April 14-15 in Fresno, California. The Committee represents a broad range of opinions from all portions of the Country. Local public officials, academic leaders, community service providers,

development experts, and financial services providers are all represented on this blue ribbon Committee. The Committee is scheduled to complete its written report around the end of May and I look forward to learning from their work and sharing this work with the Congress.

CLOSING

Mr. Chairman, Ranking Member Frank and members of the Committee, thank you for the opportunity to appear before you today. I realize that the President's Strengthening America's Communities Initiative is a bold new approach and that you have many legitimate questions. Along with my colleagues at this table, I look forward to working with this Committee to shape the proposal. In the meantime, I thank you for this opportunity to discuss these serious issues. I look forward to providing you as much information as I can in advance of the Administration's forthcoming legislative proposal.

**WRITTEN STATEMENT OF
SECRETARY ALPHONSO JACKSON
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**



**BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES**

APRIL 6, 2005

-Chairman Oxley, Ranking Member Frank, and Members of the Committee:

I want to thank you for the opportunity to appear today, as the Committee begins its deliberations on the Strengthening America's Communities Initiative, which the Administration has proposed within its FY 2006 budget.

I am pleased to be joined by Secretary Guitierrez.

Let me briefly outline for the Committee the motivation guiding the Administration proposal, and how the Initiative will make the federal government a better partner in meeting the Nation's community and economic development needs.

Today, potential grantees seeking funds for community and economic development projects must navigate a maze of 35 federal programs spread across seven different departments. Each program operates under a separate set of standards, and each has its own reporting requirements. These programs at times duplicate and overlap one another. They can be inconsistent in how they determine eligibility.

The goal of the Strengthening America's Communities Initiative is to consolidate 18 community and economic development programs into a single program. The new program will be more flexible and easier for communities to access than the current set of programs. It will be administered by the Department of Commerce. It will build on the experience of HUD, Treasury, and the other departments with related programs.

I strongly support the concept of consolidation as a catalyst for delivering more funding to communities in need.

The CDBG program is the federal government's largest single grant program to assist local governments in undertaking a wide range of community development activities. In the course of its 30-year history, CDBG has provided a ready source of flexible funding for housing rehabilitation programs, public services, public facilities and infrastructure, and economic development activities benefiting millions of low- and moderate-income persons.

Over time, the CDBG formula has become less targeted to the communities with high community development need. While the formula has changed from time to time since 1974, the core variables have not been changed since 1978. In February 2005, HUD issued a report that offers four alternative formulas that would substantially improve targeting to community development need. This study will provide Congress and the Department of Commerce with formula options as it fashions the legislation for the new Strengthening Americas Communities Initiative. However, I would hope that this new Initiative embrace the flexible use of funds that grantees under the current CDBG program have come to depend upon.

In addition to CDBG, the Administration's proposal would consolidate and replace smaller HUD programs, including Brownfields development grants, grants to Round II Empowerment Zones, Rural and Economic Development grants, and the Section 108 guarantee program. The Section 108 program has been used by a relatively small fraction of CDBG recipient communities to leverage their CDBG funds; working with Secretary Gutierrez, I will seek ways to ensure that jurisdictions

with previously awarded Section 108 loan guarantees are not adversely affected by the transition to a new program.

I will work closely with Secretary Gutierrez, my colleagues within the Administration, and the other agencies affected by the consolidation to develop a legislative plan for implementing the Strengthening America's Communities Initiative.

In closing, let me say that by consolidating programs, we will better target limited federal resources to places without the fiscal ability to meet their own needs. By ensuring the flexible use of funds, we will empower our grant partners to meet local needs with local solutions. And in the end, the federal government will more effectively serve America's communities.

I would like to thank all the members of this Committee for your support of our efforts at HUD. We welcome your guidance as we continue our work together.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF **MANAGEMENT** AND BUDGET
WASHINGTON, D.C. 20503

Testimony of the Honorable Clay Johnson III,
Deputy Director for Management, Office of Management and Budget
before the
Committee on Financial Services
U.S. House of Representatives

April 6, 2005

The Bush Administration wants government programs to work – to achieve their intended results. We are systematically assessing programs to determine whether or not they work. If they don't, we figure out how to fix them.

So far, we have assessed programs that account for 60 percent of the Federal Budget – 607 programs in total. We ask of every program:

- Does it have a clear definition of success, and is it designed to achieve it?
- Are its goals sufficiently outcome-oriented and aggressive?
- Is it well managed?
- Does it achieve its goals?

This assessment invariably reveals ways a program can be improved, no matter whether the program is a top or poor performer.

This past year we assessed the collection of Federal economic and community development programs, and determined most were not accomplishing their intended results. We worked with agencies and stakeholder groups to find ways to improve targeting, as well as performance and accountability, key elements of the President's Strengthening America's Communities Initiative. The Federal Government invests approximately \$16 billion each year through approximately 35 grant and loan programs and tax incentives across 7 major agencies. With no administration-wide approach to guide these efforts, many of these investments are:

- largely uncoordinated,
- too loosely targeted,
- weakly leveraged,
- and not achieving results.

Most important, these programs often cannot demonstrate they are having any significant positive impact on the communities they serve. After more than 30 years and over \$100 billion dollars, the federal government can point to few examples of measurable success in improving communities.

Today, many of these programs focus on the number of households or businesses assisted, but fail to answer the question, "How were communities changed for the better?" However, where we do find examples of success we should be figuring out what makes them work, and then replicate them across the country.

One such example of success is Richmond, Virginia. There, the City Council worked with neighborhood associations to target funding to 6 distressed neighborhoods. By targeting certain areas and leveraging private sector involvement, average neighborhood funding increased by \$500,000. But the story doesn't stop there; more strategic targeting was accompanied by increased accountability. The results:

- a 17% drop in the crime rate (versus a 5% drop for the rest of the city);
- a 44% increase in assessed real estate value; and
- a 64% decrease in properties with code violations.

Unfortunately, the status quo does not support or provide incentives for this type of behavior. The fragmentation of programs, weak targeting, and most importantly, lack of accountability for results, does not adequately serve our most distressed communities. Structural change is needed.

The Administration proposes to address this problem by consolidating 18 of the government's community and economic development programs into a new approach, the Strengthening America's Communities Initiative, with a clear definition of success: economic growth and opportunity in communities where it would not have otherwise existed.

Additionally new eligibility criteria, based on job loss, unemployment levels and poverty, are proposed to ensure the funds are directed to the communities most in need of the development assistance.

Finally, and most importantly, it is proposed that communities be required to meet specific accountability measures to track progress towards the community's goals.

For those communities that show inadequate progress meeting the program's goals, a plan of action will be developed and technical assistance will be provided to ensure that future funds are strategically targeted and invested in proven activities.

Communities that are consistently unable to use taxpayer dollars to meet the accountability measures would stand to lose future funding.

Our proposal also includes a new and innovative approach to promote results. The Economic Development Challenge Fund will award bonus grants to low-income communities that demonstrate the potential to achieve the ambitious goals of strengthening ownership and increasing opportunity. To qualify, communities first must show progress in key areas known to stimulate economic development and community revitalization:

- People must feel safe
- Low-income children must have educational opportunity
- Local government must facilitate rather than impede investment

The Administration proposes to consolidate this new program at the Department of Commerce because its mission – creating the conditions for economic growth and opportunity – is most consistent with the mission of the new program.

The Bush Administration wants community and economic development programs to work. The President's Strengthening America's Communities Initiative establishes clear principles for reform. The Administration is ready to work with the Congress to enact enabling legislation. America's communities will be better for it.


National Association of Housing and Redevelopment Officials

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April 5, 2005

The Honorable Michael Oxley
 Chairman
 Committee on Financial Services
 United States House of Representatives
 Washington, DC 20515

The Honorable Barney Frank
 Ranking Member
 Committee on Financial Services
 United States House of Representatives
 Washington, DC 20515

Dear Mr. Chairman and Mr. Ranking Member:

Please consider this letter for submission to the record in conjunction with the Committee's April 6, 2005, hearing entitled "Strengthening America's Communities: A Review of the President's FY2006 Budget Initiative."

The National Association of Housing and Redevelopment Officials' (NAHRO) members administer HUD programs such as Public Housing, Section 8, Community Development Block Grants (CDBG), and the HOME Investment Partnerships Program (HOME). NAHRO's membership includes over 18,000 individual members and associates, and nearly 3,300 agency members, including housing authorities, community development departments, and redevelopment agencies. For over 70 years, NAHRO has been a leading housing and community development advocate for the provision of adequate and affordable housing and strong, viable communities for all Americans—particularly those with low- and moderate-incomes.

NAHRO strongly opposes President Bush's proposal to eliminate the CDBG Program. For 30 years, CDBG has served as the cornerstone of the federal government's commitment to partnering with state and local governments to strengthen our nation's communities and improve the quality of life for low- and moderate-income Americans. Federal housing programs work hand-in-hand with community development activities to stimulate local economies, create jobs, encourage investment and expand the tax base. A key component of any responsible housing and community development agenda is a continued commitment to providing local governments with the resources they need to further valuable revitalization initiatives. Unfortunately, the administration's proposal to eliminate CDBG along with 17 other federal community and economic development programs is an unsettling sign of a shrinking commitment to provide adequately funded and sufficiently flexible tools for rehabilitating affordable housing, spurring economic growth and revitalizing stagnant neighborhoods.

The Office of Management and Budget (OMB) has characterized CDBG as ineffective. NAHRO respectfully disagrees. CDBG has made a real and positive difference in communities across America during the past 30 years. According to the Department of Housing and Urban

James M. Inglis, President; **Donald J. Cameron**, SPHM, Senior Vice President; **Sandra Edmonds Crewe**, Ph.D., PHM, Vice President-Professional Development; **Joseph E. Gray, Jr.**, Vice President-Community Revitalization & Development; **David J. Meachem**, SPHM, Vice President-Member Services; **Elizabeth C. Morris**, Vice President-Housing; **Marjorie C. Murphy**, Vice President-Commissioners; **Raymond P. Murphy, Jr.**, PHM, Vice President-International; **Saul N. Ramirez, Jr.**, Executive Director

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Development's "Highlights of FY 2004 CDBG Accomplishments," CDBG funding led to the creation or retention of more than 90,000 jobs in the last year alone. Thanks to CDBG, in 2004 over 130,000 rental units and single-family homes were rehabbed, 85,000 individuals received employment training, 1.5 million youth were served by after-school enrichment programs and other activities, and child care services were provided to 100,065 children in 205 communities across the country. CDBG also funded nearly 700 crime prevention and awareness programs.

CDBG is helping to make the American dream of self-sufficiency and financial security a reality for families and individuals from all backgrounds. In 2004, 95 percent of funds expended by entitlement grantees and 96 percent of state CDBG funds expended were for activities that principally benefited low- and moderate-income persons. Overall, a full half of persons directly benefiting from CDBG-assisted activities were minorities, including African Americans, Hispanics, Asians, or American Indians. Additionally, more than 11,000 Americans became homeowners last year thanks to CDBG funding.

As you know, CDBG's flexibility allows communities to address priority needs as determined at the local level through the citizen participation process. I note, for example, that CDBG is an important source of funding for direct economic development assistance to businesses in Mansfield, Ohio. The program is also used successfully in that city for the rehabilitation of single-unit residential homes. The City of Lima, Ohio, likewise uses CDBG funds for single-unit rehabilitation, but Lima also relies upon CDBG as a critical source of dollars for street improvements and child care services.

Grantees and community development interest groups know there is no shortage of CDBG success stories. NAHRO has partnered with HUD and others in a good faith effort to improve the program's ability to measure performance. As a result of this effort, HUD plans to unveil a new outcome-based measurement system in early 2005. As recently as November 2004, OMB endorsed this undertaking. Let me be clear: NAHRO's participation in this endeavor should not be viewed as an endorsement of OMB's assessment of the CDBG program. Instead, NAHRO and other public interest groups believe that full implementation of the system will provide solid, empirical evidence of what we already know to be true: CDBG works.

I would also encourage you to examine OMB's "Performance Assessment Rating Tool (PART)" evaluation of CDBG with a critical eye. In a February 2005 report, a panel convened by the National Academy of Public Administration disagreed with the PART review on a number of points. Contrary to OMB's assertion, the panel concluded that "CDBG's statutory mission or purpose seems clear." The panel also disagreed with OMB's claim that CDBG suffers from a "lack of clarity in the program's purpose and design," arguing instead that CDBG, "a highly flexible block grant, is intended as a source of funding to address needs of communities and states within a broad national framework." In its review, NAPA concludes that the PART tool is not currently well-suited to evaluate block grant programs such as CDBG and recommends OMB create "an intra-agency working group of budget examiners to review block grant programs and develop a more consistent framework for applying the PART to them."

Let me take a moment to share my personal perspective on CDBG. I served as the Mayor of Laredo, Texas, from 1990-1997. During my tenure as Mayor, I came to appreciate CDBG's role as one of the most powerful engines for economic growth as well as a catalyst for affordable housing, community development, and infrastructure improvements. I understand as you do that we live in an era of scarce resources and changing priorities. Nevertheless, CDBG remains the preferred tool of local officials for improving the quality of life at the local level, and that should count for something.

I have also observed the program's successes from the federal vantage point, having served as the Assistant Secretary for Community Planning and Development and, later, as the Deputy Secretary of the Department of Housing and Urban Development. On my watch, the department worked with communities and interest groups to improve the timely expenditure of CDBG funds. Since that effort began, the number of untimely grantees has been reduced from over 300 to less than 50. This success story is illustrative of two larger and critically important points.

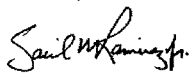
First, HUD is the department with the national infrastructure of expertise, personnel, and institutional history already in place to administer effectively the country's most important federal community development program. Second, when stakeholders agree improvements to CDBG are needed, interest groups and grantees are willing to come to the table with Congress and the department to work toward responsible, meaningful change. Contrast this reality with the President's proposal to simply abolish CDBG and replace it with a completely new, untested, underfunded program to be housed within a department with no proven record of accomplishment in the administration of federal *community* development programs.

As important as CDBG is, we must not lose sight of the other essential programs targeted for elimination under the President's "Strengthening America's Communities" proposal. Consider the Section 108 community development loan guarantee program, just one of the 17 other programs. Since 1978, nearly \$7 billion in Section 108 lending has helped to finance approximately 1,500 total economic redevelopment projects and stimulated almost \$20 billion in private sector investment. These results have occurred at a cost of only around \$150 million to the federal government. According to HUD, the Section 108 program created or retained approximately 11,700 jobs in 2004. Section 108 is a sound investment of federal dollars. There has never been a call on the federal guarantee, and over 80% of the businesses assisted through Section 108 are still in operation after three years.

In conclusion, the President's "Strengthening America's Communities" proposal may have a pleasant sounding name, but it represents an unprecedented reversal of the covenant relationship between the federal government and states and localities. Eliminating CDBG, the Section 108 loan guarantee program, the Brownfields Economic Development Initiative, the Rural Housing and Economic Development program, the Economic Development Administration's grant programs, the Community Services Block Grant program, Rural Business Enterprise Grants, Community Development Financial Institutions Fund awards, and other vital sources of federal investment is not reform. It is instead a profoundly disturbing retreat from a responsible federal community and economic development agenda.

Thank you for your consideration. We look forward to your continued good stewardship of our federal housing and community development programs. If I or my staff can ever be of assistance to you, please do not hesitate to contact us.

Sincerely,



Saul N. Ramirez, Jr.
Executive Director



National Association of Federal Credit Unions
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(703) 522-4770 • (800) 336-4644 • Fax (703) 524-1082

April 6, 2005

The Honorable Mike Oxley
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Oxley:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only national trade association that exclusively represents the interests of our nation's federal credit unions, I want to share NAFCU's concerns regarding proposed changes to the administration and funding of the Community Development Financial Institutions (CDFI) Fund that are included in the President's FY '06 budget in conjunction with your Committee's hearing today.

NAFCU is concerned that the value of the CDFI fund would get diluted, its focus shifted and its true purpose lost if it were moved from the Treasury Department to the Commerce Department. If the CDFI Fund were to be eliminated, credit unions and other community development financial institutions dedicated to community development in economically distressed areas and committed to service to under-banked and un-banked populations, would be greatly hampered in their efforts. With the recent cuts in CDFI funding, we are concerned that this proposal could lead to the elimination of this worthwhile Fund with its track record of solid success. NAFCU opposes moving the CDFI Fund to the Commerce Department and urges Congress to continue to fund the CDFI Fund at the \$80 million level for FY 2006.

Thank you for the opportunity to offer NAFCU's thoughts on this important matter. If my staff or I may be of assistance to you regarding this or any other matter, please do not hesitate to contact me or NAFCU's Director of Legislative Affairs, Brad Thaler, at (703) 522-4770.

Sincerely,

Fred R. Becker, Jr.
President and CEO

cc: The Honorable Barney Frank
The Honorable Bob Ney

FRB/mp



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COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

WHAT'S NEW THIS YEAR

- President Bush has proposed a new “Strengthening America’s Communities Initiative” in his Fiscal Year (FY) 2006 Federal Budget. The CDFI Fund grant programs are among 18 community development programs proposed to be consolidated into a new block grant administered at the Department of Commerce. The requested FY 2006 funding level for the new block grant is nearly \$2 billion less than the FY 2005 funding level for the 18 programs it would replace. This drop in funding represents a 33% cut in federal support for community development.
- The President’s FY 2006 budget proposes \$8 million for the CDFI Fund - \$47 million less than the FY 2005 funding level of \$55 million. The proposed FY 2006 budget for the CDFI Fund would include only enough money for the CDFI Fund to administer the New Markets Tax Credit program and monitor their existing CDFI Fund program awards.
- The CDFI Coalition is advocating for an \$80 million appropriation for the CDFI Fund for FY 2006. \$80 million in FY 2006 would represent a restoration to FY 2002 appropriations levels for the CDFI Fund.
- The CDFI Coalition opposes the inclusion of CDFI Fund grant programs in the “Strengthening America’s Communities” block grant. The CDFI Fund’s unique approach of supporting local private sector institutions and leveraging private investments would be lost under the proposed block grant model.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

Community Development Financial Institutions (CDFIs) are financing entities with a primary mission of fostering community development through the tools of finance. CDFIs take many different forms including banks, community development corporations, credit unions, loan funds, venture capital funds, and microenterprise loan funds. CDFI customers include small business owners, non-profit organizations, affordable housing developers, and low income individuals. Nearly seventy percent of CDFI customers are low income persons, 59 percent are racial minorities, and 52 percent are women. CDFIs operate in all 50 states, the District of Columbia and Puerto Rico.

CDFIs achieve impressive impact in their communities. A survey of 477 CDFIs (out of an estimated 1,000 CDFIs nationwide) conducted by the CDFI Data Project¹ documented the following CDFI achievements:

- Financed and assisted 2,288 businesses and 6,923 microenterprise businesses that created or maintained more than 32,030 jobs;
- Facilitated the construction or renovation of over 44,600 units of affordable housing;

¹ The CDFI Data Project Fiscal Year 2003 Report.

- Closed over 16,000 mortgages;
- Helped 9,234 low-income customers open their first bank accounts and provided more than 9,200 alternatives to payday loans;
- Provided loans to 15,783 people with no previous credit history;
- Provided training and technical assistance to 6,418 organizations and nearly 100,000 individuals.
- Financed 768 community service organizations, creating and supporting 12,025 new and existing childcare slots and 6,715 new and existing educational slots.

Today, approximately 1000 CDFIs manage almost \$15 billion in predominantly private capital. The loan portfolios of CDFIs capitalized under CDFI Fund programs exhibit loss rates below two percent, comparable to the nation's best banks. CDFIs work where conventional financial institutions do not by providing financial services coupled with financial education and technical assistance to help alleviate poverty for economically disadvantaged people and communities. CDFIs offer responsible alternatives to predatory lenders, providing necessary services at a fraction of the cost.

BACKGROUND ON THE CDFI FUND

The Treasury Department's CDFI Fund is an innovative federal agency whose programs leverage private investment to benefit low income people and communities. Authorized by the Riegle Community Development Banking and Financial Institutions Act of 1994, the CDFI Fund was created to expand the availability of credit, investment capital, and financial services in distressed urban and rural communities through a national network of community development financial institutions. The CDFI Fund administers a series of competitive grant programs that provide capital grants, loans, equity investments and technical assistance to CDFIs and their partners. CDFIs leverage this federal investment on average 21 times with private monies², using these funds to revitalize communities via investments in affordable housing, small businesses, and community facilities, and by providing retail financial services to low income populations.

The mission of the CDFI Fund is to build the capacity of CDFIs to expand access to capital, credit and financial services offered to low income communities. By stimulating the creation and expansion of diverse CDFIs, and by providing incentives to traditional banks and thrifts, the Fund's investments work toward building private markets, creating healthy local tax revenues, and empowering residents.

The CDFI Fund is unique among federal agencies because it takes an entrepreneurial approach to its programming by funding and strengthening institutions rather than particular projects. The CDFI Fund provides financial and technical assistance to CDFIs that leverage the federal investment to expand community development activities in their communities.

² Abernathy, Wayne, Assistant Secretary for Financial Institutions, US Department of the Treasury. Hearing on FY 2005 Appropriations, US House Subcommittee on VA, HUD, and Independent Agencies. March 17, 2004.

CDFI FUND PROGRAMS

The CDFI Fund operates four main programs. Through these programs, the CDFI Fund is the largest single source of funding for CDFIs, and plays an important role in attracting and securing non-federal funds for community development investment in low-income neighborhoods. Since its first round of funding in FY 1995, the Fund has made more than \$700 million in awards to CDFIs and their bank partners. The CDFI Fund's website (www.cdfifund.gov) has more information about these programs, criteria and applications for becoming a certified CDFI, and lists of previous awardees and currently certified CDFIs nationwide.

CDFI Program. The CDFI Program is comprised of two components: Financial Assistance and Technical Assistance. CDFI Fund's Financial Assistance Program provides loans, equity investments, and grants to CDFIs to support their capitalization and capacity building, enhancing their ability to create community development impact in underserved markets. CDFIs compete for federal support based on their business plans, market analyses, and performance goals. Applicants for financial assistance must be certified by the CDFI Fund and raise at least a one-to-one match of non-federal funds. The Treasury Department has testified that for every \$1 of CDFI Fund investment through the Financial Assistance program, a local CDFI leverages, on average, \$21 in private sector investment. The Technical Assistance program of the CDFI Fund provides small grants to CDFIs to pay for such one time capacity building expenses as purchasing loan servicing software, conducting a market study, obtaining strategic planning advice or upgrading computer equipment.

Native American CDFI Initiatives Program. Recognizing the unique barriers to capital, credit and financial services facing Indian Country, the CDFI Fund has offered organizations serving this population a targeted opportunity to apply for technical and financial assistance grants. Similar to the CDFI Fund programs, applicants to the Native American CDFI Initiatives program must demonstrate their capacity and track record of serving Native American populations.

Bank Enterprise Award (BEA) Program. The BEA program provides financial incentives to banks and thrifts to invest in CDFIs and support other community development finance work. CDFI banks also receive assistance from this program for increases in their lending and retail financial services in low-income communities.

New Markets Tax Credit Program (NMTC). The NMTC is designed to generate \$15 billion of private sector equity investments in low income communities. Congress enacted the NMTC in the Community Renewal Tax Relief Act of 2000, and the Fund awarded the first round of credits early in 2003. Credits are available to support a total of \$15 billion in investment: \$2.5 billion in 2002 (allocated in 2003); an additional \$3.5 billion in 2003-2004 (allocated in 2004); \$2 billion in 2005; and \$3.5 billion each year in 2006 and 2007. Approved Community Development Entities (CDEs) apply to the Fund annually for New Market Credit allocations. These entities offer the credit to private investors as an incentive to invest in their community revitalization projects. Taxpayers claim the credits over 7 years, starting on the date when the equity investment is made in the CDE and on each anniversary.

ISSUES FACING THE CDFI FUND IN 2005

Although the CDFI Fund has enjoyed broad, bipartisan Congressional support, the Bush Administration has exhibited only lukewarm interest. Since FY 2002, Congress has consistently appropriated more money for the CDFI Fund than the President has requested. Appropriations to the CDFI Fund reached a high of \$118 million in FY 2001, but have since decreased by over 50% to \$55 million in FY 2005.

In the Administration's FY 2006 budget request, President Bush proposes eliminating future funding for CDFI Fund grant programs (CDFI, Native American CDFI Initiative and Bank Enterprise Award). Under the President's proposed budget the CDFI Fund would only receive \$8 million in FY 2006 to administer past CDFI Fund awards and the New Markets Tax Credit. The CDFI program, the Native American CDFI Initiatives and the Bank Enterprise Award programs are included among the 18 programs recommended for consolidation under the Commerce Department's "Strengthening America's Communities Initiative". Under this consolidation proposal, monies previously dedicated to the CDFI program, the Native American CDFI Initiative and the Bank Enterprise Award programs would be combined with 15 other federal community development programs at the Department of Commerce in a new block grant to states and municipalities.

Under the proposed block grant structure, CDFIs would lose the ability to apply directly to the federal government for targeted investments. The important role that modest federal dollars play in allowing CDFIs to attract private sector investment would be lost under the new proposed structure. The CDFI Coalition is advocating for the CDFI Fund grant programs to remain at the CDFI Fund with an overall appropriation in FY 2006 for the CDFI Fund of \$80 million.

FOR MORE INFORMATION

The CDFI Coalition (703) 294-6970 www.cdfi.org

The CDFI Fund (202) 622-6355 www.cdfifund.gov

Prepared March 2005 by the CDFI Coalition

Congressman Steve Pearce's Questions for the Record

Financial Services Committee Hearing on April 6, 2005/Submitted April 12, 2005
"Strengthening America's Communities: A Review of the President's FY2006 Budget Initiative"

1) Would the amount of funding – the current total for the 18 programs slated to be consolidated – stay the same if the SAC Initiative were implemented?

In the President's FY 2006 budget proposal, the overall funding for 35 federal economic and community development programs (including those consolidated as part of the Strengthening America's Communities Initiative) will be reduced by 4%, from \$16.2 billion in FY 2005 to \$15.5 billion in FY 2006, consistent with spending restraint in other non-defense, non-homeland security spending.

The net funding of the 18 consolidated programs under the Initiative is \$3.71 billion. In FY 2005, Congress authorized a total of \$5.314 billion for these programs.

2) It has been suggested that the proposed consolidation would eliminate a lot of redundancy. If the amount of funding for SAC is less than the current total for the 18 programs slated to be consolidated, would this cut in funding come from the elimination of redundancy or from actual funding that the communities are eligible to receive? If so, what do you estimate the amount of change in funding will be?

Several reviews of federal economic and community development programs have indicated that they are in need of reform and restructuring. Currently, community and economic development programs are spread across the federal government, resulting in duplication and fragmentation of effort and an inefficient use of taxpayer dollars. The President's proposed reforms will improve community and economic development efforts for low-income persons and economically-distressed areas through a more targeted and results-oriented approach.

Some programs have demonstrated limited benefit to overall economic health. The focus of the initiative is to use tax dollars in a more effective manner, ease administrative burdens on communities in need and target dollars to those communities that are in greatest need, and not those communities with strong economic growth. SACI would target funding to those communities most in need of assistance, and is expected to provide increases for many of those communities.

3) This initiative is said to eliminate duplication, expand flexibility, bolster local control, ease bureaucratic red tape, and provide the most assistance for the most distressed communities. But what is the difference in the amount of actual funding that a typical rural community would lose (or gain)?

The President's Strengthening America's Communities Initiative will focus resources on the nation's most economically distressed communities. By focusing on communities most in need, fewer communities may be funded, but we hope to craft an allocation

methodology that allows those highly distressed communities to receive increased funding along with more flexibility, more control and more focus on activities that drive their local economy or make their communities more livable.

The Administration strongly believes that funding should be targeted to those communities most in need. For example, the Community Development Block Grant (CDBG) program was created to serve distressed communities, but currently allocates 38% of its funds to communities (including both entitlement communities and the State portion) with below average poverty rates.

In terms of the amount of actual funding a typical rural community will lose or gain, funding amounts and eligibility will ultimately be determined by Congress. The Administration is currently drafting its legislative proposal. It also expects to receive advice and recommendations from a Secretarial Advisory Committee comprised of community and economic development practitioners, experts, and elected officials in June. The Committee's report will make recommendations regarding how best to target limited federal dollars to areas of greatest economic distress.

It is worth mentioning, however, that the status quo disadvantages smaller towns in rural America that do not have and cannot afford extensive bureaucracies to tap into 18 different pots of federal money. The President's proposal will streamline access to federal assistance by providing a single access point for rural communities. By targeting funds on the basis of need, we can direct funding to the communities that are most deserving regardless of whether they are rural or urban.

4) Would the Administration of the SAC Initiative be handled by state governments or the Federal government? We seem to have a system (CDBG) that works well as it is. How long would the implementation of the SAC Initiative take, and how would you educate communities on the new process of application? Have the effects and costs of the transition, both to communities and all governments involved (local, state, and Federal) been estimated? If so, what are they?

The Administration looks forward to working with stakeholders and Congress to develop the specifics of the program. However, as currently envisioned, the Strengthening America's Communities Initiative will allow flexibility in use of funds. Funding will flow in three ways:

1. Directly to eligible communities by formula grant;
2. To States by formula grant, who will in turn distribute funding to communities, especially eligible rural communities, not reached by the first stream of funding; and
3. To certain "development ready" communities under a competitive grant program.

Access to the federal grant system will be simplified because grant funding will be unified rather than distributed across multiple agencies.

The Department of Commerce will work closely with the affected agencies and the Office of Management and Budget to address transition issues. We anticipate a robust public outreach campaign combined with strong ongoing technical assistance to educate communities about the full range of new program requirements including the application process.

Comprehensive program transition costs and benefits to communities will depend on the eligibility criteria and formula. The Administration will continue to work with Congress on transition and legacy program issues and address these concerns in its legislative proposal.

5) Many people take issue with the 4% cut in funding. Yet many studies show that when we consolidate duplicative government functions, huge administrative savings can result. Will the administrative savings equal 4% of the budget, or more or less? The issues that should be discussed are 1) how communities will be affected in the implementation and operation of this initiative, and 2) how you plan to research and develop this transition and address problems that arise in the process.

The Department of Commerce will work closely with the Office of Management and Budget and the affected agencies to develop detailed transition plans. The Administration anticipates that the administrative and staffing costs of this new program will be much less than the total of the 18 consolidated programs.

In addition to the anticipated administrative savings, the goal of the consolidation is also for a more streamlined delivery system resulting in better service and reduced administrative costs for the communities receiving assistance. By design, the initiative will provide technical assistance to affected communities and stakeholders to ease the transition to the new program and ensure wide-spread understanding of the initiative's eligibility criteria, delivery systems, and performance and accountability measures.

Transition and individual program legacy issues will be addressed in consultation with Congress.

6) Who determines the current assessment tools for CDBG, with regard to accountability for funds that are awarded? How is that determined, and how would it change if the SAC Initiative were implemented? Are those standards currently adjusted based on community size and type? How would this affect rural communities under the proposed changes?

Current assessment tools for the Community Development Block Grant program are developed by the U.S. Department of Housing and Urban Development, which administers that program. CDBG grantees currently submit information to HUD's reporting system on the activities they carry out with their CDBG funds and the accomplishments they achieve, by activity. In addition, the Office of Management and Budget (OMB), through its Program Assessment Rating Tool (PART), has reviewed by

objective and rigorous standards the performance of CDBG and the other community and economic development programs under the initiative.

Accountability standards for the Strengthening America's Communities Initiative have not been developed at this time but are a critical component of the initiative. This initiative represents a new approach to economic and community development assistance by placing the focus on long-term outcomes that demonstrate improvement toward community self-sufficiency. Communities will be required to show that they have made progress toward locally selected goals for development (such as job creation, homeownership, and commercial development) in return for being able to determine how best to spend federal dollars to meet those outcomes. Performance metrics will be developed with input from the Secretarial Advisory Committee and in collaboration with Congress. We recognize that small areas may not have the same kind of resources as large areas in developing accountability systems and will work with them in meeting the challenge of measuring performance.

Ensuring that recipients achieve long-term results towards livable communities and sustained economic opportunity and prosperity is one of the core policies behind this initiative. Selecting the right performance measures is of critical importance.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-1000

OFFICE OF CONGRESSIONAL AND
INTERGOVERNMENTAL RELATIONS

August 1, 2005

The Honorable Michael G. Oxley
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Recently, the Department received from the Committee questions for the record written by Representative Pearce from the April 6, 2005 hearing on "Strengthening America's Communities: A review of the President's FY2006 Budget Initiative".

Based on the testimony of the two Secretaries and the fact that the Department of Commerce is the lead agency for the initiative, HUD defers comment on these questions to the Department of Commerce.

HUD has shared these questions with the Department of Commerce and was confirmed that they will provide the responses to you soon. Ms. Leah Harrelson, Legislative Assistant in the Office of Legislative and Intergovernmental Affairs at the Department of Commerce is the point of contact for these responses. She can be contacted at (202) 482-3663.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven B. Nesmith".

Steven B. Nesmith
Assistant Secretary for Congressional and
Intergovernmental Affairs

Responses to House Financial Services Questions for the Record from Clay Johnson's Testimony on April 6th, "Strengthening America's Communities."

1A: No funding is requested for the 18 consolidated programs. The funding requested for new SACI program is \$3.7 billion, which is less than the combined total of \$5.3 billion they received from their FY 2005 appropriations. However, funding for all 35 community and economic development programs is only reduced by 4 percent, from \$16.2 billion to \$15.5 billion.

2A: Some of the savings will come from funding currently going to wealthy communities currently receiving funds from programs such as Community Development Block Grants. However, eventual administrative savings would result from administering a single, unified funding stream instead of 18 separate grant programs. The Administration is currently looking at ways to better target funds through an improved formula allocation.

3A: We expect to give States more funding than they received in 2005 under CDBG to distribute to poor smaller and rural communities. States would largely decide which of these communities to fund from year to year.

4A: The administration of the grants would occur at the State and local level, similar to the CDBG framework, so the time to transition need not be lengthy. Commerce anticipates a need for funds for technical assistance to educate communities on the new performance requirements. Field offices would need to interact more directly with grantees to educate them on the new grant procedures. The costs and other transition issues will be addressed as needed in full coordination with relevant agencies.

5A: The increased focus on accountability and performance will achieve greater results with these dollars. While the Administration will honor all outstanding government commitments, the proposal plans to allow phase-out of the current grants under their existing requirements and anticipates extensive coordination between agencies and OMB on all transition issues.

6A: Current CDBG grantees are held accountable for meeting specific regulatory and statutory requirements; however, HUD does not require grantees to demonstrate results or meet certain standards for outputs or outcomes. Some communities may have their own local requirements, but many do not currently have a local system in place to measure performance. The Department of Commerce would work with communities to develop a system to measure results that allows flexibility. Commerce plans to draw upon current best practices such as the balanced scorecard approach it uses with EDA grantees and CDFI's Community Investment Impact System (CIIS). Communities and States would be given flexibility to develop standards outside the core indicators, especially in rural areas.

STATEMENT BY

**U.S. CONFERENCE OF MAYORS
NATIONAL ASSOCIATION OF COUNTIES
NATIONAL LEAGUE OF CITIES
NATIONAL ASSOCIATION OF LOCAL HOUSING
FINANCE AGENCIES
NATIONAL ASSOCIATION FOR COUNTY
COMMUNITY
AND ECONOMIC DEVELOPMENT
NATIONAL COMMUNITY DEVELOPMENT
ASSOCIATION
NATIONAL ASSOCIATION OF HOUSING
AND REDEVELOPMENT OFFICIALS
COUNCIL OF STATE COMMUNITY
DEVELOPMENT AGENCIES**

TO THE

HOUSE FINANCIAL SERVICES COMMITTEE

HEARING ON

**“STRENGTHENING AMERICA’S COMMUNITIES –
A REVIEW OF THE PRESIDENT’S FY 2006
BUDGET INITIATIVE”**

APRIL 6, 2005

The U.S. Conference of Mayors (USCM), National Association of Counties (NACo), National League of Cities (NLC), National Association of Local Housing Finance Agencies (NALHFA), National Association for County Community and Economic Development (NACCED), National Community Development Association (NCDA), National Association of Housing and Redevelopment Officials (NAHRO), and the Council of State Community Development Agencies (COSCDA) appreciate the opportunity to present this statement to the House Committee on Financial Services. We offer this testimony in strong support of the Community Development Block Grant Program (CDBG) and in equally strong opposition to the Administration's "Strengthening America's Communities Initiative."

The Administration's FY 2006 budget proposes *the total elimination* of CDBG. In CDBG's place, the Administration is proposing the creation of a smaller program within the Department of Commerce that will focus principally on economic development. We strongly oppose this substantive policy change for several reasons. First, CDBG is the nation's premier community development program with a long record of success. Second, the Department of Housing and Urban Development (HUD) and the Department of Commerce each play an important role in an intergovernmental partnership with respect to community and economic development. These roles must be preserved and strengthened. Overall there is no reason to eliminate CDBG or create a new program within the Department of Commerce (modeled after CDBG) to administer federal community development funds.

CDBG was signed into law by President Gerald Ford in 1974. Now in its 30th year, CDBG is arguably the Federal Government's most successful domestic program. The CDBG program's success stems from its utility i.e., providing cities, counties and states with flexibility to address their unique affordable housing and neighborhood revitalization needs. Based on HUD's most recent data, in FY 2004 alone the CDBG program *assisted over 23 million persons and households.*

CDBG Has Positive Impact

HUD, OMB and grantees celebrated CDBG's anniversary last September under the theme "Performance Counts." This was entirely appropriate because CDBG has been performing at a high level for 30 years, and it continues to produce results. In fact, according to HUD, more than 78,000 jobs were created or retained by CDBG in FY 2004. In addition, in FY 2004, 159,703 households received housing assistance from CDBG. Of this amount 11,000 became new homeowners, 19,000 rental housing units were rehabilitated and 112,000 owner occupied homes were rehabilitated. In FY 2004, over 9 million persons were served by new or reconstructed public facilities and infrastructure, including new or improved roads, fire stations, libraries, water and sewer systems, and centers for youth, seniors and persons with disabilities from CDBG funds. In addition, more than 13 million persons received assistance from CDBG-funded public services in FY 2004, including employment training, child care, assistance to battered

and abused spouses, transportation services, crime awareness, and services for seniors, the disabled, and youth. In addition, over time grantees provide CDBG-funded loans to businesses located in distressed neighborhoods, with minority businesses receiving approximately 25% of the loans.

CDBG has been achieving results like this throughout its history. An analysis performed by Professor Stephen Fuller of George Mason University in 2001 shows that over the first 25 years of the CDBG program CDBG-funded projects created 2 million jobs and contributed over \$129 billion to the Gross Domestic Product (GDP).

Examples of CDBG at Work

Consider the following examples of CDBG at work in the community. These projects were all award winners at last September's 30th Anniversary Celebration of the CDBG program.

The City of Jacksonville-Duval County, FL has invested more than \$20 million to revitalize the Royal Terrace neighborhood, one of its oldest and poorest. The improvements included extensive drainage, sewer, paving and curbs and gutter improvements. Since 1998, CDBG, together with HOME funds, has been expended to rehabilitate the homes of 72 low- and moderate-income residents. In addition, CDBG funded-rehabilitation has resulted in 75 homes of low- and moderate-income persons being hooked up to sewer lines. A \$700,000 Section 108 loan guarantee assisted with the rehabilitation of a 200-unit apartment complex where all of the residents receive Section-8 rent subsidies. A private investor contributed \$4.5 million to the rehabilitation. CDBG funds also addressed part of the rehabilitation of vacant buildings in the Royal Terrace neighborhood that have now been converted into commercial facilities that house businesses.

Los Angeles County used CDBG funds to develop its Business Technology Center, the largest high-tech business incubator in California. Opened in 1998, the BTC is a 40,000 square-foot facility in a minority community that was developed with CDBG funds (\$3.5 million) and Economic Development Administration funds (\$2 million). This is a good example of the programs of the two agencies complementing each other. Development of the facility removed a blighted structure, provided an anchor to revitalize a commercial corridor, and used technology to jump-start a disadvantaged community. Today, the BTC serves 39 tenant and affiliate firms with specialties ranging from fuel cells to biometric software to make DNA micro arrays more effective. Over 45% of the BTC firms have received more than \$65 million in equity investment and created more than 475 jobs.

The City of Portland, Oregon's Rosemont project involved the redevelopment of an eight-acre site to preserve the historic Villa St. Rose School and Convent while creating a range of affordable homeownership and rental housing opportunities. Completed in 2002, Rosemont integrates several different housing types, provides a spectrum of affordability, and includes much-needed community services. There are 100 units of

senior rental housing in the preserved and expanded Villa St. Rose Convent building. There are 18 new family rental units, 17 affordable homes for first-time homebuyers, 30 town homes, several single-family homes for sale at market rate, and a Head Start facility that will have five classrooms and administrative offices. The City provided \$3.9 million in permanent CDBG financing to develop the senior housing, helped with the site planning, made street and other public improvements, and provided homebuyer assistance.

Yuma, Arizona's historic Carver Park Neighborhood is a 22-block area that is 73% Hispanic and has a high rate of unemployment with nearly half of its residents living in poverty. The City designated it a Neighborhood Revitalization Strategy Area under the CDBG program in 2000. As a result, significant improvements and additions have been made to the neighborhood's housing stock. Thirty-six town homes and 89 units of new rental housing (constructed with Low-Income Housing Tax Credits) have been built. An additional 40 units of private single-family units have been added to the housing stock, 53-units have been rehabilitated, and two homes were reconstructed. HUD also approved a Section 108 loan guaranteed for homeownership activities. The neighborhood just celebrated the opening of the Dr. Martin Luther King Neighborhood Community Center, a safe place for youth to gather. The improvements made in this neighborhood demonstrate the impressive leveraging of public and private funds and programs to maximize CDBG funding. To date a total of \$27.5 million in additional investment has been leveraged for neighborhood revitalization from a total CDBG investment of \$4.1 million.

The City of Dayton, Ohio has focused its community development efforts on eradicating blight from its neighborhoods and making large abandoned commercial sites available for re-use and redevelopment in order to create jobs. From 2000 to 2003, the city spent \$3.8 million to clear 61 acres of blighted commercial properties in order to make these brownfields sites available for business re-use. Of the 61 acres, 10 have been developed for a new business incubator and the expansion of Select Tool, a Dayton manufacturing firm that retained 55 jobs and will create 100 new jobs. In addition to brownfields redevelopment, the City spent over \$600,000 for business loans and grants to 29 businesses, resulting in the creation of over 56 jobs for low- and moderate-income residents. In addition, from 2000 to 2003, the City spent over \$350,000 in workforce development programs and partnered with such local agencies as the home builder's association to equip under- and unemployed residents in accessing living wage jobs. Over 800 low- income residents were served through the City's workforce development partners and 172 were placed in full-time, living wage jobs.

When disaster strikes, Congress usually turns to the CDBG program to help provide relief as it did for Florida in the wake of last year's devastating hurricane season. CDBG has also been an effective resource in helping New York City rebuild after the September 11th tragedy. HUD has provided New York with \$3.483 billion in CDBG funds to be administered by the Empire State Development Corporation (ESDC) and its subsidiary the Lower Manhattan Development Corporation (LMDC). Of that amount, \$700 million has been committed to ESDC and \$350 million to LMDC for business retention/attraction

and economic loss compensation. An additional \$305 million is being used by LMDC for a residential incentive program, training assistance and administrative costs. The process of designating the balance of the funds continues, and CDBG will continue to play a critical role in the City's recovery.

The Self Help Virginia water and sewer program is able to bring centralized water or sewer service (and often both) to remote, undeserved, low-income rural communities where conventional infrastructure financing (loans or grants) would not be economically feasible. The program takes advantage of local volunteer labor to provide water and sewer services where those services would be difficult or unaffordable to provide through conventional means, particularly in the state's Appalachian counties. In the past six year's the state has provided over \$6.1 million in CDBG funds to assist 30 projects. Over 100 miles of pipe have been laid. Over 2,800 people now have (or will soon have) reliable water and sewer service. The state has further supported revitalization in these areas with housing rehabilitation grants and other community development investments. The state has stretched its dollars by combining CDBG funds with Appalachian Regional Commission funds and local dollars. The state estimates the cost savings from this program to be \$10 million (a 62% reduction from the estimated "retail cost" of these projects if they had been contracted out).

CDBG Works, Why Eliminate It?

CDBG is popular on both sides of the aisle, and the private sector recognizes its value as well. Senator George Voinovich (R-OH) said recently at the U.S. Conference of Mayors Winter Meeting that "CDBG is the finest Federal program ever to impact cities... [it] should be increased, not decreased." The President of the Mortgage Bankers Association of America, Michael Petrie, was quoted at the same meeting as stating "we need to work together to preserve funding for HUD programs such as CDBG." Senator Christopher Bond, Chair of the Senate HUD Appropriation's Subcommittee, and someone who has considerable experience with CDBG as a former governor and as chair, was quoted in the February 8th edition of the *Washington Post* as saying that the proposal "makes no sense."

We are frankly puzzled that the Administration offered this sweeping proposal. In late January, HUD Secretary Alfonso Jackson told the Winter Meeting of the U.S. Conference of Mayors that the Bush Administration is "... committed to the CDBG program. He said that CDBG "...is a good program and the Administration is committed to seeing that it meets its responsibilities." He said that the FY 2006 budget "... would be fiscally conservative but it will allow you [mayors] to carry out your responsibilities." What a remarkable turn of events to see that the FY 2006 budget *completely eliminates* the CDBG program.

Evidence of strong support for the CDBG program can be found in the debate in the House and Senate over the FY 2006 concurrent budget resolution. Fifty eight Senators signed a letter to Senate Budget Committee Chairman Judd Gregg urging the Committee to preserve and fully fund the CDBG at \$4.732 billion, the same as the FY 2005 funding level. Although the Committee-approved resolution did not provide this level of funding

in Function 450, a floor amendment was offered by Senator Norm Coleman to do so. The amendment was approved on a bipartisan vote of 68-31.

In the House a bipartisan group of 181 members signed a letter to Budget Committee Chair Jim Nussle urging the Committee to preserve CDBG and fully fund it. In fact the report accompanying the House version of the budget resolution notes that \$1.1 billion was added to Function 450 to fully fund the CDBG program.

The organizations represented by this testimony do not agree with the poor rating the program received by the Office of Management and Budget (OMB) as part of its Performance Assessment Rating Tools (PART) process. Our analysis of the PART suggests that it is an inappropriate measure of a block grant program's performance. Instead, it lends itself to an assessment of categorical programs. As described above, contrary to the results of this inappropriate rating tool, the program does work well. Since its enactment in 1974, the program has been, and continues to be, a critical affordable housing and neighborhood revitalization tool for communities. While providing essential services to citizens nationwide, CDBG also acts as an engine of economic growth. It creates jobs and retains business, and it provides communities with the tools to make needed infrastructure improvements, all with a focus on low- and moderate income persons and their neighborhoods.

The PART review of CDBG states that the program lacks performance outcome measures. NCD, NACED, NAHRO, and COSCDA worked with OMB and HUD for nearly a year on performance outcome measures for HUD's four formula grant program: CDBG, HOME Investment Partnerships Program, Emergency Shelter Grants (ESG) and Housing Opportunities for Persons with AIDS (HOWPA). Through a *consensus*, the group has developed a framework and specific outcome measures to evaluate the effectiveness of these programs. **OMB helped develop this and has signed off on the framework and the outcome measures.** HUD is in the process of implementing it. We worked in good faith with OMB and HUD in developing sound performance measures for CDBG; all parties supported the existing program. Why suddenly has OMB shifted its support of the program? Why did it develop a whole new "Strengthening America's Communities" (SAC) Initiative to replace CDBG when all parties agreed that CDBG had great accomplishments that could now be reported through our newly created Performance Measures system?

Administration's "Strengthening America's Communities" Proposal

It has been reported that a "Cross Cutting Working Group" of senior staff from federal agencies recommended these changes and that is the genesis of the Strengthening America's Communities Proposal. This is patently untrue. That group met last year to develop common outcome measures for certain federal programs. The work of that group was to collect information in a common way about programs that helped communities. However, each of the federal programs proposed to be eliminated plays a different role, and each is still very much needed.

It is difficult for us to comment on the Administration's proposal without knowing the full details. The Initiative is undefined and unknown at this point. What is clear is that 18 programs that touch on urban and rural economic development, at an FY 2005 funding level of \$5.5 billion, are proposed to be turned over to the Department of Commerce and reemerge as a new program whose funding level is proposed at \$3.71 billion, a reduction of nearly \$2 billion. We do not support such an initiative. We do not support the elimination of the CDBG program in any form nor do we support the transfer of its funding or the funding of any other HUD program to the Department of Commerce.

With the creation of this Initiative, the Administration seems to be suggesting that CDBG is only an economic development program. In FY 2004, 25% or \$1+ billion in CDBG funds went to housing activities – assistance to first-time homebuyers, and single- and multi-family housing rehabilitation. Another 40% of the funds went to support public infrastructure – water and sewer facilities, streets and sidewalks, fire stations, and community centers, all in low- and moderate-income neighborhoods.

It is also reasonable to question whether the Commerce Department has the capacity to administer a multi-billion dollar program. Its \$257.4 million economic development grant and loan programs are dwarfed by HUD's \$4.7 billion CDBG program. HUD, together with its more than 1100 urban, suburban and rural CDBG grantees, constitutes an effective infrastructure for program administration. State and local grantees are intimately familiar with the CDBG statute and implementing regulations. It begs the question, why not move Commerce's economic development programs to HUD for it to administer?

Moreover, programs currently located within the Department of Commerce's Economic Development Administration (EDA) portfolio already address several of the issues contemplated by the new initiative. EDA's grant and loan programs are utilized by local governments to stimulate private sector job growth, ease sudden and severe economic distress and promote long-term economic development planning. They are critical to the nation's distressed areas across the country. EDA's programs were reauthorized last year through FY 2008, a move strongly supported by local governments. The severe impact created by the loss of these important resources cannot be understated.

In addition, a major concern for us, and the communities we serve, is the issue of repayment of Section 108 guaranteed loans. Section 108 is a component of CDBG and allows communities to fund large scale projects pledging future CDBG allocations to repay these loans. Many communities across the country have undertaken projects financed by Section 108 guaranteed loans and depend on their CDBG allocations for repayment. Without CDBG, these communities would be forced to repay these loans with their own funds. This would put many communities at risk of repayment and/or reduce already diminishing local general revenues.

Summary

In summary, we find this new proposal totally unacceptable, and we are extremely disappointed that this tactic is being used as an excuse to eliminate CDBG and cut much needed resources to communities. A key priority of the Bush Administration is stimulating the domestic economy by creating jobs and expanding homeownership, and that is exactly what CDBG does. CDBG is good business and is the foundation of our nation's communities.

The fact is, CDBG is working, and it will work even better once HUD implements the new performance outcome measurement system. It needs to remain at the Department of Housing and Urban Development and funded in FY 2006 at a funding level of at least \$4.7 billion, with no less than \$4.35 billion in formula funding. This funding level approximates the FY 2004 funding level and the amount requested by the President in his FY 2005 budget.

