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 SUBCOMMITTEE ON FEDERALISM

OVERSIGHT HEARING ON

"STRENGTHENING AMERICA'S COMMUNITIES – IS IT THE RIGHT STEP TOWARD GREATER EFFICIENCY AND IMPROVED ACCOUNTABILITY?"

MARCH 1, 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 Subcommittee on Federalism and the Census. 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 solely 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. Overall there is no reason to eliminate CDBG or create a new program within the Department of Commerce 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 it 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 Terrance 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 Terrance 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. Overall, from 2000 to 2003, the City leveraged $61 million in additional private and public funds for every CDBG dollar it allocated.

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 needs, 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.

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 t a focus on low- and moderate income persons and their neighborhoods.

The PART review of CDBG states that the program lacks performance outcome measures. NCDA, NACCED, 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.