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Representing the

COUNCIL OF STATE COMMUNITY DEVELOPMENT AGENCIES

Before the House Subcommittee on Housing and Community Opportunity
Of the House Financial Services Committee

Regarding HR 3995, "Housing Affordability for America Act of 2002"

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INTRODUCTION

Good morning Madam Chair, Representative Frank, and distinguished members of the subcommittee. Thank you very much for the opportunity to testify before you today. My name is Catherine Racer and I am an Associate Director of the Massachusetts Department of Housing and Community Development. I am testifying today on behalf of the Council of State Community Development Agencies regarding HR 3995, the "Housing Affordability for America Act of 2002".

First of all, I want to thank the committee, and you Madam Chair for holding this hearing and drafting a bill that addresses many of our country's housing problems. We appreciate your efforts greatly and our state member agencies stand ready to work with you to address our collective housing needs. With a strong, proven track record of successfully administering housing programs, states are uniquely positioned to address the myriad housing needs facing America's communities.

Today, I would like to focus my remarks on four primary components of HR 3995:

1.) Proposed changes to the HOME Program

2.) The need for a separate rental housing production program

3.) The case for formula allocating the McKinney-Vento Homeless Assistance Programs

4.) Recommendations for the Community Development Block Grant Program.

PROPOSED CHANGES TO THE HOME PROGRAM.

First, COSCDA fully supports the changes to the HOME Program proposed in HR 3995, with the *exception* of the proposed set-aside for a new production program within HOME that I will address shortly. HOME is an extremely efficient and effective housing program responsible for creating hundreds of thousands of housing units across the country while leveraging nearly four dollars for every HOME dollar invested. The flexibility in the HOME Program allowing states to address varying housing needs is the key to its success, and HR 3995 will enhance the existing program. We applaud your efforts to streamline the program and promote the flexibility necessary for states to effectively address the unique housing needs of their communities.

Specifically, we support your proposal allowing the use of state or area median income for rent determinations. This flexibility will spur the development of affordable housing, particularly in rural areas not currently served. Along the same lines, the removal of fair market rents as the basis for HOME rents will also enable more development in areas where the FMR is artificially low and will not support the requisite debt service for housing projects.

In addition, we strongly support the provision allowing states to charge monitoring fees to cover compliance monitoring costs. This will provide states with the ability to ensure that HOME projects remain in compliance and affordable to low income people over time. Lastly, on another administrative matter, COSCDA strongly supports the provision in the bill that would allow states to report their match on a program year basis, making it easier for states to comply with federal reporting requirements.

RENTAL HOUSING PRODUCTION

While HOME is an excellent housing resource and we appreciate your focus on rental housing production, we oppose any set-asides within the existing HOME Program. COSCDA agrees there is a need for rental housing targeted to very-low and extremely low-income people, but among our concerns is that a production program within HOME would result in a set-aside without adequate funding, and fail to effectively assist extremely low-income people.

Instead, we strongly support the creation of a separate, state-administered rental housing production program. COSCDA strongly believes that states have a proven, effective delivery system for producing affordable housing, particularly rental housing for extremely low and very low income people.

States have the resources and tools necessary to significantly leverage other funds to maximize federal resources for rental housing production. Additionally, states are uniquely positioned to develop a comprehensive strategy for rental housing production that is fully integrated with existing housing programs. The creation of a separate production program administered by states will allow for strategic targeting of significant resources on a state-wide basis.

In Massachusetts, we fully commit all of our HOME funds each year, with a significant percentage going to rental housing. Even so, the need for additional housing production remains immense. We welcome a separate production program which would complement the productions efforts already underway with HOME. We hope you will consider endorsing a separate program as the bill moves forward.

THRIFTY PRODUCTION VOUCHERS

In order to develop housing targeted to extremely low-income people, HR 3995 creates "Thrifty Production Vouchers". Capital subsidies alone generally cannot support housing for extremely low income people, therefore COSCDA believes these vouchers may serve as valuable and cost effective tool for reaching extremely low income people. COSCDA believes that any effort to create a Thrifty Production Voucher should ensure maximum compatibility with existing production programs as well as any new housing production initiatives.

MCKINNEY-VENTO HOMELESS PROGRAMS

Next, HR 3995 re-authorizes the existing competitive structure of McKinney-Vento Homeless Assistance Programs through FY2004. We believe consolidating these programs and distributing the funds by formula allocation is a better approach. Homelessness cannot be solved with a one size fits all national competition. Rather, state and local governments provide the most effective mechanism for planning and coordinating the delivery of homeless services, and developing tailored strategies based on state and local need.

The current competitive system prevents HUD from releasing vital homeless dollars quickly. For example, it often requires more than one year for funds to be distributed. In addition, the current system fails to provide a consistent, predictable funding stream that is vital to creating a sound, comprehensive homelessness strategy.

A formula distribution of these funds would ensure timely disbursement to homeless service providers and allow for state and local decision-making based on local needs. Formula allocation of these programs would also provide the flexibility needed to develop innovative solutions to the problems of homelessness. Lastly, formula allocation would provide states with the consistency of funding necessary to effectively plan solutions. As HR 3995 moves forward, we hope you will re-consider the merits of allocating the McKinney-Vento funds by formula.

On a related issue, given the existing structure of the program, we support the committee's recommendation to fund the renewals of the Shelter Plus Care program and SHP permanent housing through the Housing Certificate Fund. Shifting the renewal of these projects to the Section 8 account will have limited financial impact on Section 8, and will provide states' with a viable mechanism for funding deserving and needed permanent housing projects. At present, many states' renewal burdens are overwhelming and restrict their ability to fund new, innovative permanent housing projects. Without this shift of renewals, many states face "de-funding" some projects and returning people back to homelessness. Enactment of the committee's recommendation in a timely manner would avert the problem of moving people out of federally-assisted housing and back into emergency shelters or onto the streets.

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

With respect to the Community Development Block Grant (CDBG), there are a number changes COSCDA would like to see made to the statute that would enhance the ability of states and localities to use the program, particularly in smaller and rural communities. Additionally, there are a few areas of concern that COSCDA would like to address regarding CDBG.

First, COSCDA recommends that States be provided flexibility in the use of their statutorily authorized administrative and technical assistance funds. Currently, states may use only one percent of their CDBG formula allocation for technical assistance, and two percent for administration. Many of the sub-grantees in the State CDBG program are small and rural communities inexperienced in community development and certainly not accustomed to the numerous requirements of the CDBG program. States may need to use some of the administrative fees for technical assistance and capacity building to assist these communities.

Second, COSCDA recommends that a dedicated stream of funding be authorized for CDBG training programs, similar to the current structure in the successful HOME program. In the HOME program, two percent of the funds appropriated are authorized for technical assistance and capacity building. All HOME stakeholders agree that one of the primary reasons for the program's success is the capacity building and technical assistance that is provided for these activities on a regular basis. HOME provides a regular menu of training programs to help new staff from Participating Jurisdictions (PJs) and Community Housing Development Organizations (CHDOs) learn the program requirements, and also provides for direct technical assistance to PJs and CHDOs. For the past three years there has been little or no funding available for similar training for administrators of the CDBG program, yes funding for CDBG is more than double that of the HOME Program. Without this training, personnel from HUD, state and local agencies as well as non-profits are unable to effectively meet the program's goals. COSCDA urges the Subcommittee to authorize training funds for the CDBG program.

Next, I would like to highlight a few of COSCDA concerns regarding the CDBG program. First, COSCDA opposes H.R. 1191, the Community Development Block Grant Renewal Act, which seeks to increase the targeting of the CDBG program, institute proportional accounting, and eliminate area-wide benefit methodology. If this bill is enacted, State and local governments would be restricted in the use of their CDBG funds, particularly for large geographic areas, such as counties, or for rural areas, where population is much less dense than in urban or metropolitan areas. HR 1191 also seriously undermines the CDBG program's flexibility, effectively eliminating area benefit activities, which would restrict funding to important infrastructure projects, particularly water and sewer projects.

The provisions proposed in the bill would turn the program into an inflexible "antipoverty" program, something that Congress never intended. HR 1191 also seeks to target at least 80% of

CDBG funds to low and moderate income people and calls for at least 40% of those funds to go directly to those persons with incomes between 30 and 50% of median income. At this time, CDBG funds are being spent in accordance with statutory requirements. In fact, a recently completed congressionally mandated HUD study documented that 84 percent of CDBG program dollars benefit low and moderate income persons, significantly higher than the statutorily required 70 percent. COSCDA urges the Subcommittee members to reject HR 1191.

Second, COSCDA opposes the Administration's FY 2003 budget proposal to shift CDBG resources from so called "wealthier" communities and give the funds to "poorer" communities. The Administration's proposal ignores the fact that even the wealthiest communities can be home to needy populations and that those communities deserve to have resources to meet their many needs. By design, the formula distributes funding based in part on the percentage of persons living in poverty within an entitlement community or urban county. Therefore, poverty and the need for assistance exist in all entitlement communities that receive a formula allocation.

Lastly, COSCDA seeks clarification of the provision which would allow religious organizations to receive CDBG funds for secular activities. Currently, any non-profit organization may apply for CDBG funds if it meets the statutory requirements of qualification, including community participation on its board. The proposed activity for funding must be a project which meets the national objectives and eligible activities of the program. If a religious organization meets those requirements they are already eligible to apply for CDBG funds. Therefore, it appears this provision is unnecessary unless the intent of the provision is to treat religious organizations differently from other non-profit organizations for the purposes of the CDBG program. If that is the case, COSCDA would not support such a change to the statute. We ask that the Subcommittee clarify the purpose of this provision so that further input can be provided.

CONCLUSION

Madam Chairwoman, this concludes my remarks. We look forward to working with you and the committee as you move forward on this important legislation. I appreciate the opportunity to speak before the committee and will be happy to answer any questions you may have.