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

URGENT

LEGISLATIVE REFERRAL MEMORANDUM

LRM #D-746
DRAFT #457

TO: Legislative Liaison Officer -

COMMERCE - Michael A. Levitt - (202)482-3151 - 324
HHS - Frances White - (202)690-7760 - 328
JUSTICE - Sheila F. Anthony - (202)514-2141 - 217
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FEMA - John P. Carey - (202)646-4105 - 327
NEC - Sonyia Matthews - (202)456-6722 - 429
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FROM: JANET R. FORSGREN (for) Janet L. Forsgren
Assistant Director for Legislative Reference

OMB CONTACT: Matthew WELBES (395-7362)
Secretary's line (for simple responses): 395-7362

SUBJECT: HUD Draft Bill Homeownership Act of 1994

DEADLINE: 3:00 PM April 26, 1994

COMMENTS: Attached is HUD draft testimony to be delivered on Thursday, April 28th before the Housing and Community Development Subcommittee of the Senate Banking Housing and Urban Affairs Committee. THE ABOVE DEADLINE IS FIRM.

OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

Please advise us if this item will affect direct spending or receipts for purposes of the the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

CC:
Ken Ryder
Steve Redburn (8)
Jim Duke
Chris Brown
Adrien Silas
Larry Matlack
Cookie Walden
(Jose Cerda,
Stan Herr,
Paul Weinstein)
Kim Burke

Bob Damus
Joe Minarik
Paul Carey
Mark Mazur
Bill Dickens
Clarissa Cerda
Janet Forsgren
Chris Mustain
Jim Jukes
Delphine Motley

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RESPONSE TO LEGISLATIVE REFERRAL MEMORANDUM

If your response to this request for views is **simple** (e.g., concur/no comment) we prefer that you respond by **faxing** us this response sheet. If the response is **simple** and you prefer to call, please **call the branch-wide line** shown below (NOT the analyst's line) to leave a message with a secretary.

You may **also respond** by (1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); (2) sending us a memo or letter; or (3) if you are an OASIS user in the Executive Office of the President, sending an E-mail message. Please **include** the LRM number shown above, and the **subject** shown below.

TO: Matthew WELBES
Office of Management and Budget
Fax Number: (202) 395-6148
Analyst/Attorney's Direct Number: (202) 395-7362
Branch-Wide Line (to reach secretary): (202) 395-7362

FROM: ________________ ________ (Date)
________________________ (Name)
________________________ (Agency)
________________ ________ (Telephone)

SUBJECT: HUD Draft Bill Homeownership Act of 1994

The following is the response of our agency to your request for views on the above-captioned subject:

_____ Concur

_____ No objection

_____ No comment

_____ See proposed edits on pages ____________

_____ Other: ________________________

_____ FAX RETURN of _____ pages, attached to this response sheet

Statement by HUD Secretary Henry G. Cisneros before the Senate Committee on Banking, Housing, and Urban Affairs, Subcommittee on Housing and Community Development, April 28, 1994

Thank you, Mr. Chairman and members of the Committee, for giving me the opportunity to present our proposed reauthorization legislation, the Housing Choice and Community Investment Act of 1994. We are very grateful to you, Senator Sarbanes, for your forceful advocacy on behalf affordable housing and better communities, and for the spirit of cooperation and partnership you have brought to working with us at HUD. We look forward to continuing our strong working relationship with you and your committee in the months and years ahead.

Mr. Chairman, the introduction of this bill comes at a critical time for our nation's housing and communities. In the past year the Administration has made solid progress on many key fronts. So far the economic recovery has created a net increase of more than two million new jobs, nearly double the private sector job growth of the previous four years, with a solid foundation for another two million new jobs in 1994. The national rate of homeownership rose significantly in 1993 after a decade of decline and stagnation, creating more than 400,000 new homeowners including many young first-time buyers, and we expect this positive homeownership trend to continue in 1994.

Yet along with these encouraging numbers and many other signs of change for the better, we still face tremendous challenges. The President's new Federal Plan will soon report millions

that about seven million people were homeless at some point in the last half of the past decade. Poverty rose during the 1980s to its highest level in three decades, and child poverty grew even faster -- more than one out of five children are now poor, including two out of five Hispanic children and nearly one out of two African-American children.

[illegible]
4-26

Over three-quarters of our nation's growing poverty population is concentrated in inner-city and inner suburban neighborhoods. These areas have become the focal points not just for joblessness but crime, violence, drugs, homelessness and inadequate housing, racial and ethnic segregation, redlining and economic discrimination. Today in America, a child dies of gunshot wounds every two hours. Youth unemployment in many of these neighborhoods is as high as 70 or 80 percent.

Our special challenge is to bring the people who live in these communities back into the mainstream of American life, by stimulating community reinvestment to create safe, healthy and economically viable neighborhoods where they now live, and by generating real job and housing opportunities that enable low-income residents to choose where they live and work throughout metropolitan areas.

Mr. Chairman, we stand at a crossroads: we can follow the troubled course of the past decade, or we can continue to change course, as we have in the past year, and breathe new life and hope into distressed communities and revive the economic fortunes of cities and suburbs alike.

Changing course means abandoning failed government policies that contributed to the current crisis by concentrating very-low-income families in dense, high-rise public housing projects and by discouraging poor people from seeking work. It means abandoning lending practices which have cut off the flow of private capital to poor communities. It means changing the way we think about how federal, state and local government, cities and suburbs, and the public and private sectors relate to each other.

The growing difficulties of too many communities has fueled the belief that there is no hope of reversing course. But hope is sprouting all around us:

- In Baltimore, Maryland, a group called Community Building in Partnership is transforming the Sandtown-Winchester neighborhood by improving health care and education, creating jobs and businesses, removing abandoned housing and building 300 affordable homeownership townhomes.

- In Louisville, Kentucky, the Russell Partnership is changing one of the nation's ten most impoverished urban neighborhoods into a beacon of hope and opportunity, creating 400 new jobs and cutting the crime rate in half. The Louisville Housing Authority has successfully turned public housing in the neighborhood into private homeownership for low-income residents.

- In Chicago, Illinois, the "Gautreaux" initiative -- the model for HUD's Moving to Opportunity program -- has successfully enabled more than 4,500 low-income families to move from inner city poverty to suburban communities. In most cases, these families have successfully shifted from welfare to work and found better schools, safer streets, higher incomes, and socially integrated lives for their children.

- In Portland, Oregon, city and county officials have opened the doors to self-sufficiency for homeless people through a program which combines alcohol and drug abuse treatment, and mental health counseling with employment opportunities.

The Housing Choice and Community Investment Act of 1994 builds on these and many other success stories. It is informed by an understanding that real changes touching people's lives happen at the community level, and that the federal government's role must be to support and facilitate self-sustaining community-based partnerships for change. It is reinforced by HUD's commitment to pay special attention to meeting the needs of the poorest and most vulnerable people in our society. Most importantly, it is animated by two fundamental principles that shape our legislation: choice for people and investment in communities.

Choice for people

In America, people should be able to live and work wherever their abilities, means and dreams can take them. The Housing Choice and Community Investment Act of 1994 seeks to enable Americans to realize their full potential through a range of initiatives to help people move from welfare dependency to self-sufficiency, from unemployment to productivity, from homelessness to stable lives in permanent housing, from rental housing to homeownership, and from isolated islands of poverty to the wider mainstream of American economic life.

Investment in communities

People must take responsibility for their own lives, but to do that, they need good schools for their children, safe streets and public spaces, clean, affordable housing, and employment opportunities. The Housing Choice and Community Investment Act of 1994 supports grassroots, community-based efforts to promote public and private investment in housing, businesses, physical improvements, and social services needed to transform distressed communities into places where people can lift themselves economically and improve their lives.

For more than a decade, the U.S. Department of Housing and Urban Development stood on the sidelines while people and communities across the country struggled for survival. The Housing Choice and Community Investment Act of 1994 will put HUD back in business as a force for positive change in America.

OVERVIEW OF THE KEY PROVISIONS OF THE HOUSING CHOICE AND COMMUNITY INVESTMENT ACT OF 1994

The Housing Choice and Community Investment Act of 1994 would authorize $60 billion over the next two fiscal years for HUD's housing and community development programs. The Act establishes a strong foundation for implementing the President's housing and community investment agenda.

Mr. Chairman, five central priorities -- reducing homelessness, turning around public housing, expanding and preserving affordable housing and homeownership, ensuring fair housing for all, and empowering communities -- underlie our 1994 legislation.

Priority One: Reducing Homelessness

Throughout the 1980s and early 1990s, the number of homeless people on America's streets steadily increased. In the absence of any large-scale federal commitment to confront this problem, local governments and nonprofit groups were left to deal with it alone. The result was an ad hoc, fragmented system of soup kitchens and emergency shelters which addressed the symptoms rather than the causes of homelessness. This approach has not solved the problem.

The Housing Choice and Community Investment Act of 1994 puts the federal government in business as a leader and full partner in local communities' efforts to reduce the number of homeless Americans on their streets. The Act:

* **Would double federal support for homeless-assistance initiatives.** More than $1.7 billion would be authorized for homeless assistance in fiscal 1995, including $100 million for special programs by local governments through our Innovative Homeless Fund.

* **Creates a new approach to homelessness.** The current patchwork quilt of food banks and emergency shelters would be replaced by a "continuum of care" which addresses the specific needs of homeless individuals and families -- for job training and counseling, drug, alcohol and mental health treatment, and other services -- and moves them from the streets to permanent housing. Existing McKinney Act homeless programs would be reorganized to give local governments the power to design and implement comprehensive strategies that meet local homeless needs.

* **Gives homeless people permanent housing.** As the final component in the continuum of care strategy, the Act would provide rental assistance to 15,000 formerly homeless individuals and families.

Priority Two: Turning around public housing

Over the past several decades, federal policies have transformed too much of our public housing into "warehouses for the poor." Various requirements and practices have led to the concentration of very low-income families in dense, high-rise housing, and have in many cases discouraged residents from working.

Federal regulatory restrictions and micromanagement have frequently stifled local creativity and innovation. For example, public housing authorities have been compelled to use their modernization funds to renovate deteriorated, high-risk buildings even where it would be cheaper to demolish and replace these buildings with economically integrated, well-designed, small-scale, affordable housing. We have increasingly lost sight of the original goal of public housing -- to create stable, healthy, mixed-income neighborhoods.

The Housing Choice and Community Investment Act would establish the foundation to transform the public housing program.

The collective impact of these legislative initiatives could literally "change the urban landscape" by replacing high-rise buildings and overly concentrated developments with safe and proud communities. The Act:

* **Replaces distressed public housing.** The Act dramatically increases the resources available for public housing authorities to redesign and replace the nation's most deteriorated public housing. HUD has already committed $1 billion under our new HOPE VI program. The 19 94 Act would fundamentally re-vamp the modernization program by enabling funds to be used for demolition and replacement housing; and, for the first time, enable housing authorities to collectively borrow billions of dollars against future modernization funds, and to leverage these borrowed resources with other public and private investments.

* **Makes work pay.** Rent rules would be substantially revised to ensure that unemployed public housing residents who obtain a job or participate in employment training programs will not pay higher rent for at least 18 months. Rent increases for working families would be limited to encourage them to remain as residents. Also, Admission rules that restrict public housing primarily to very-low-income people would also be modified to permit greater income diversity and include more working families among residents.

- **Promotes jobs for residents.** The Act would encourage jobs and small business opportunities for low-income residents. Real enforcement of Section 3 of the 1968 Housing Act, for the first time since its passage, is designed to ensure that public housing residents share in the economic benefits of HUD-generated construction and services contracts. Economic Opportunity grants and Family Investment Centers would provide public housing residents job training, placement, and other services. Residents would receive greater support for community organizing through the Tenant Opportunity Program, for which funding would be more than tripled.

- **Fights crime.** Community policing, youth recreation and education, and other anti-crime activities would be encouraged and supported in Community Partnerships Against Crime, an expansion of the existing Public Housing Drug Elimination Grant Program. COMPAC would encourage partnerships between residents, management, police, and surrounding neighborhoods. Other anti-crime initiatives include permission for local public housing authorities and owners of HUD-assisted housing to ban guns in their buildings through lease provisions.

Priority Three: Expanding Affordable Housing

Decent, affordable housing is essential to healthy communities, and a vital goal of public policy. For much of the last decade, HUD withdrew from its responsibility to promote affordable rental housing and affordable homeownership.

The Housing Choice and Community Investment Act puts the Federal Housing Administration back in the business of promoting affordable housing production and opens the doors of homeownership to Americans who have been locked out in the past. The Act fosters new partnerships for housing production between federal, state and local governments, private business and nonprofit groups. The Act:

- **Opens doors to homeownership**. The Act would make no down payment financing available to low- and moderate-income buyers who purchase homes in urban revitalization areas. It would make $100 million available through the National Homeownership Fund Demonstration for down payments, closing costs, second mortgage assistance and other help for first-time homebuyers. The Act would more than quadruple funding for homeownership counseling for renters seeking to make the transition to buying a home.

- **Puts FHA back in business**. The Act would raise the maximum FHA mortgage amount from 152,000 to $172,000 in high-cost areas, to increase affordable home financing opportunities for several million American households and improve the economic soundness of the FHA insurance fund. Other provisions of the Act would allow for greater flexibility and experimentation with new mortgage insurance products, allowing FHA to reclaim its role as an innovative leader in the nation's mortgage markets.

* **Fosters partnerships.** The Act would authorize more than $500 million to leverage billions in pension fund and other private and public investment in affordable rental housing -- a fivefold increase over the money appropriated by Congress for this initiative in 1994. The Act would also enable state housing finance agencies and government-sponsored enterprises to undertake joint risk-sharing financing efforts with the FHA.

Priority Four: Enforcing Fair Housing

To fully pursue a better life for themselves and their children, Americans must have the opportunity to live in neighborhoods of their choice. To lift themselves to better economic futures, communities must have unfettered access to private and public investment.

For too long, the federal government failed to enforce laws guaranteeing all Americans freedom from discrimination in housing and lending markets, instead supporting programs which concentrated poor people in separate communities where they became isolated from their fellow citizens. Today, the federal government is actively in the business of ensuring that no one is barred from affordable housing or loan opportunities because of discrimination, that no communities are unfairly denied the capital they need for economic development, and that all Americans enjoy real housing choice.

The Housing Choice and Community Investment Act:

* **Promotes real housing choice.** The Act would overhaul the Section 8 rental assistance program to give low-income families a meaningful opportunity to choose where to live throughout metropolitan areas. The Act would authorize $149 million -- 20 times the current funding level -- for the Choice in Residency program, including intensive counseling, housing search assistance, and other services.

* **Expands fair housing and fair lending enforcement.** The Act would significantly expand funding for state and local governments and nonprofits that assist the federal government in enforcing fair housing and fair lending laws. The Act would also give HUD resources to expand federal oversight of fair lending violations and insurance redlining.

* **Provides rental assistance for the disabled.** For the first time, 5,000 Section 8 rental assistance certificates would be provided for low-income people with disabilities.

Priority Five: Empowering Communities

The federal government has a constructive role to play in community economic development -- marshaling resources, serving as a catalyst, facilitator and mediator, and in all cases, supporting and strengthening community-based development efforts.

Federal initiatives must promote communitywide solutions to communitywide problems, build on grassroots efforts and expand employment opportunities for community residents. The Housing Choice and Community Investment Act:

* **Creates jobs.** The Act would authorize a series of initiatives to give communities the tools they need to generate economic development activity in low- and moderate-income neighborhoods. The Zone Economic Development Initiative would complement the Administration's ambitious Empowerment Zones and Enterprise Communities initiative, authorizing $500 million for community-based economic development activities in these targeted areas. Neighborhood LIFT would authorize $200 million for

neighborhood-based, economic development activities such as retail, commercial, or mixed-use projects. The Act would also authorize $150 million in grants to encourage local governments to use HUD's Section 108 loan guarantees, to collectively borrow up to $2 billion annually for economic development. This program is expected to leverage an additional $500 million in private-sector investment in community economic development.

• **Brings resources to the community.** HUD has already begun creating partnerships with communities through a new comprehensive approach to planning; the Act would provide resources to carry out these plans. It would continue full funding for Community Development Block Grants. The Home program would be reauthorized at $1 billion, and would include a new loan guarantee program to help localities leverage significant additional resources for affordable housing.

• **Promotes grassroots efforts and regional collaboration.** A new $150 million Community Viability Fund would build the capacity of community-based groups and institutions, support the design and development of public amenities, encourage strategic neighborhood and metropolitan planning, and strengthen the citizen participation that enhances community stability and growth.

Mr. Chairman, in order to make fully effective our proposed legislative changes in existing programs and our new initiatives, the Department in the past year has designed and implemented a very ambitious reinvention plan. We have reorganized our headquarters and field structure, consolidated, streamlined, and eliminated operations and programs, and we are substantially improving our management and service delivery to our customers. The Housing Choice and Community Investment Act contains many provisions to further increase budget savings and program efficiency -- through administrative reforms, program reductions, faster recapture of unspent grant funds, tougher enforcement measures, and stiffer monetary penalties against corruption and abuse by HUD clients.

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Mr. Chairman, when I see that none million Americans lack decent, safe, affordable housing, when I see thousands of young people hanging out on street corners for lack of jobs, and when I see these same youth shooting each other for drug money and gang pride in Chicago's Robert Taylor Homes, I know that the woman, tired of the violence and poverty was speaking the truth when she touched my arm and said "let's make it stop." It is time to act. We believe this Act -- for Housing Choice and Community Investment -- will make a profound difference in people's lives. We will work with you to make that difference. Thank you.

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*** ERROR TX REPORT ***
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TX FUNCTION WAS NOT COMPLETED

TX/RX NO.	8661
CONNECTION TEL	~~56148~~ 395-3130
CONNECTION ID	
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USAGE TIME	00'00
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LRM #D-718

RESPONSE TO LEGISLATIVE REFERRAL MEMORANDUM

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TO: Matthew WELBES
Office of Management and Budget
Fax Number: (202) 395-6148
Analyst/Attorney's Direct Number: (202) 395-7362
Branch-Wide Line (to reach secretary): (202) 395-7362

FROM: April 13, 1994 (Date)
Stan Herr (Name)
DPC (Agency)
X65570 (Telephone)

SUBJECT: HUD Draft Bill Homeownership Act of 1994

The following is the response of our agency to your request for views on the above-captioned subject:

________ Concur

No objection

Herr

URGENT

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

April 13, 1994

LEGISLATIVE REFERRAL MEMORANDUM

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TO: Legislative Liaison Officer -

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SBA - Kris Swedin - (202)205-6702 - 315

FROM: JANET R. FORSGREN (for) Janet R. Forsgren
Assistant Director for Legislative Reference

OMB CONTACT: Matthew WELBES (395-7362)
Secretary's line (for simple responses): 395-7362

SUBJECT: HUD Draft Bill Homeownership Act of 1994

DEADLINE: 4:00 PM April 13, 1994

COMMENTS: Attached are HUD's opening statement and three pieces of testimony which will be presented to the House Banking and Finance Committee's Housing and Community Development subcommittee on April 14th. Although some portions of this package may not be relevant to your responsibilities, you should review each carefully to find all areas of interest. NOTE: THE ABOVE DEADLINE IS FIRM.

OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

Please advise us if this item will affect direct spending or receipts for purposes of the the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

CC:

Chris Edley
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Chris Heiser
Ted Wartell
Alan Rhinesmith
Ed Chase
Bill Coleman
Bruce Beard
Jim Duke
Chris Brown
Adrien Silas
David Tornquist
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Clarissa Cerda
Daryl Hennessy
Janet Forsgren
Delphine Motley
JIM JUKES
DOUG STEIGER

GENERAL OPENING STATEMENT

DRAFT TESTIMONY BY NICOLAS RETSINAS, HUD ASSISTANT SECRETARY FOR HOUSING AND FEDERAL HOUSING COMMISSIONER, TO THE HOUSE BANKING COMMITTEE, SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT, APRIL 14, 1994

Mr. Chairman and Members of the Committee, we are pleased to present to you today the broad outlines of what will be the Housing and Community Development Act of 1994. The Assistant Secretarys for the four program areas at HUD -- myself for Housing, Joseph Shuldiner for Public and Indian Housing, Roberta Achtenberg for Fair Housing and Equal Opportunity, and Andrew Cuomo for Community Planning and Development -- will each briefly cover our portions of the upcoming legislation and answer any questions you may have.

Secretary Henry Cisneros and his new leadership team at the Department of Housing and Urban Development have worked closely with you and your staff for the past 15 months to bring about fundamental change in HUD and in America's communities. President Clinton's commitment to Putting People First represents a serious effort in his Administration to improve the quality of life for every American. At HUD we are reinventing our management, redesigning our programs, and expanding our initiatives to deliver on the urban and metropolitan, and even some of the rural, housing and community development goals and responsibilities of the President's agenda. Indeed, Secretary Cisneros recently signed a Performance Agreement with the President detailing what the Department plans to accomplish in each of six priority areas. Our 1994 reauthorization bill will directly reflect the priorities and performance objectives specified in the Presidential Performance Agreement: Reducing Homelessness; Turning Around Public Housing; Expanding and Preserving Affordable Housing and Homeownership; Ensuring Fair Housing; Empowering Communities; and Bringing Excellence to Management.

Mr. Chairman, the upcoming introduction of this bill comes at a critical time for our nation's housing and communities. In 1993 the Administration made solid progress on many key fronts: creating a net increase of two million new jobs, mostly private sector, more job growth than in the previous four years, with a solid foundation for another two million employment increase in 1994; the national rate of homeownership rose significantly after a decade of decline and stagnation, creating more than 400,000 new homeowners, including many young first-time buyers, and we are looking for this positive trend to continue in 1994. Yet along with these numbers and many other important signs of good news, we know that we face tremendous challenges: the President's new Federal Plan will report that seven million people were homeless at some point in the past decade. Poverty has been steadily rising in the 1980s to the highest levels in three decades, and child poverty has grown even faster -- more than one out of five children are born poor, two out of five Hispanic children and nearly one out of two African-American children. More than 75 percent of the American people living in poverty are increasingly being concentrated in isolated urban neighborhoods where most people have very low incomes at best. These areas in cities and suburbs become the focal points not just for joblessness but for crime, violence, drugs, homelessness and inadequate housing, racial and ethnic segregation, redlining and economic discrimination. Our special challenge is to bring these people into the mainstream of American life, both by stimulating community reinvestment to create safe, healthy and economically viable neighborhoods where they now live, and by generating real job and housing opportunities that provide these low-income residents with the free choice to live and work whereever they want throughout the metropolitan area and beyond.

Mr. Chairman, the HUD reauthorization bill of 1994 would authorize approximately $60 billion over the next two fiscal years for the Department's programs, establishing a strong foundation for implementing the President's housing opportunity and community investment agenda. The legislation reflects a fundamental reordering of the HUD's program and managerial priorities as well as a transformation in the way the Department conducts its business. This new mission and ethic are the vehicles by which HUD will become a true agent for change, bringing about real hope and progress for those living in America's communities.

Our proposed legislation will reflect a distinct philosophy about the appropriate ends of federal housing and community development efforts as well as the means by which those ends are accomplished. Working through partnerships with state and local government and the private sector, leveraging resources and attracting investment from pension funds, foundations, and a wide range of potential sources, empowering grassroots community-based organizations and initiatives, enabling people to exercise real choices in their lives and make positive transitions to improve the economic circumstances for themselves and their families, encouraging individual responsibility and self-sufficiency, these are some of the approaches we are now taking at the new HUD. Our work, and our bill, is organized along the lines of the six priorities of the Presidential Performance Agreement. Let me briefly outline some of the key program and management initiatives in each area, and then let the Assistant Secretarys speak for their own program responsibilities.

Priority One: Reducing Homelessness

The Department is committed to reducing the number of homeless Americans through partnerships with local governments and private nonprofit groups. To accomplish this goal, HUD is transforming the way the federal government addresses homelessness. The current fragmented system is being replaced by a comprehensive approach called "continuum of care." This approach will enable homeless persons to make critical transitions from the streets through emergency shelters to transitional housing with supportive services, and ultimately to permanent housing, jobs and independent living.

The 1994 legislation would provide HUD with the tools and to create stable, safe, healthy, mixed-income communities.

The 1994 legislation would establish the foundation for a total rebuilding of the public housing program. Rent rules would be substantially revised, providing work incentives for unemployed residents living in public housing developments, and encouraging working families to stay in public housing. A growing percentage of jobs and small business opportunities generated by construction, maintenance and administrative activities would be made available to residents, who would be able to receive job training. Local agencies would be given greater flexibility to use modernization funds to demolish and replace dilapidated buildings, and to create mixed-income housing. Entrepreneurial agencies would be rewarded, deregulated and given additional powers to experiment and innovate. Anti-crime efforts would be expanded and linked to neighborhood law enforcement efforts, community policing, security equipment, resident involvement, and youth services. The HOPE VI demonstration program to transform the most troubled housing would be strengthened. The collective impact of these legislative initiatives could literally "change the urban landscape" by converting high-rise, overly concentrated developments into safe and proud communities.

Priority Three: Expanding Affordable Housing and Homeownership

After a decade of decline, HUD's Federal Housing Administration has once again become a positive force for enhancing homeownership opportunities. Indeed, 1993 was FHA's second best year ever, insuring nearly one million mortgages, including 400,000 for first-time homebuyers. Despite the cutbacks of previous Administrations, FHA remains one of the principal sources of mortgage capital for low and moderate income families, particularly families who are first-time homebuyers or are otherwise excluded from private mortgage markets. The 1994 reauthorization contains a series of initiatives, designed to strengthen FHA's overall financial position and enhance its ability to serve neglected segments of the market.

The bill would once again make FHA a significant player in the single family mortgage market. It would raise the maximum mortgage limits -- and streamline the overly complex premium structure -- for FHA's single family insurance program. The Act would also give FHA the authority to experiment with innovative new homeownership products and enter into risk-sharing arrangements with qualified governmental entities.

The legislation would also give HUD the subsidy tools to increase homeownership opportunities among low and moderate income renters, minorities, first-time homebuyers, and other groups with special problems in obtaining affordable credit. The National Homeownership Trust Demonstration would be authorized for $100 million, and revised to expand the range of tools for low and moderate income homeownership, including downpayment and closing cost assistance, community loan funds and "soft" second mortgages. Eligible recipients would include state and local governments, nonprofits and church sponsors. In addition, the bill would create a now down payment mortgage insurance program for urban revitalization areas. The authorized level for pre-purchase homeownership counseling funds would be quadrupled. Programs that target the disposition of FHA's properties would be consolidated.

The Department has also focused on forging new partnerships to expand private capital sources for affordable rental housing production and preservation. The bill would expand FHA's efforts to provide new forms of rental subsidies and credit enhancement for the multifamily market. For example, it would authorize over $500 million to support 5,000 15-year project-based rental certificates that will leverage pension fund investment in affordable housing. This represents a five-fold increase over the pension fund initiative which Congress authorized and funded in 1993.

Priority Four: Enhancing Fair Housing

The Department is committed to using all of its powers and resources to combat discriminatory practices in the marketplace and Federal programs. Individuals must be able to live in neighborhoods of their choice. Communities must have fair access to private and public investment. To advance these agendas, HUD is pursuing vigorous enforcement of the nation's fair housing laws as well as creative metropolitanwide housing and community development strategies.

The proposed legislation would advance the goals of geographic mobility, neighborhood equity and residential diversity. The bill would consolidate and revamp the Section 8 rental assistance programs. A new Choice in Residency effort would, for the first time, give recipients of Federal assistance the counseling they need to make informed choices about where they should live. Program restrictions would be streamlined to encourage greater participation from private sector landlords, particularly landlords in areas of low poverty.

The bill would also expand support for existing programs that enable HUD, with the aid of nonprofit groups and state and local governments, to enforce the nation's fair housing laws vigorously and aggressively. Additional funds would be authorized for the Department to expand its enforcement efforts to new arenas, particularly mortgage discrimination and insurance redlining.

Priority Five: Empowering Communities

Our reauthorization bill would support HUD's efforts to become a positive force, a catalytic agent, in the rebuilding and revitalization of our nation's communities. Federal programs must give communities the flexibility to design strategies tailored to local needs and the tools and resources to carry out those strategies. Emphasis should be placed on comprehensive, integrated solutions that build the necessary foundations -- thriving economies, affordable housing, safe streets, accessible transportation, civic pride, recreational facilities -- of individual, family, and community success.

The legislation represents a strong investment in the rebirth of community -- through expansion of existing programs as well as creation of new initiatives. The legislation would continue strong support for the Community Development Block Grant program. In addition, it would create a new Neighborhood LIFT program to provide gap financing for community economic development projects such as retail, commercial, and mixed-use centers that create jobs, strengthen the local tax base, and offer vitally needed services and physical revitalization for low- and moderate-income neighborhoods.

We would also propose a new Community Viability Fund to build the capacity of community-based groups and institutions, support the design and development of public amenities, encourage strategic neighborhood and metropolitan planning, and strengthen civic culture and citizen participation that enhances community stability and growth.

Further, we would request authorization to provide funds for new development projects in Empowerment Zones and Enterprise Communities, assistance for infrastructure on the southwestern border where Americans lack basic roads, sanitation, and decent housing, and funding for our Economic Development Initiative, to make grants that enable local governments to borrow from the private sector up to $2 billion per year using HUD's Section 108 loan guarantees. These and other programs promote community investment and strengthen economic opportunity and quality of life.

Priority Six: Bringing Excellence to Management

Finally, there are two other key sets of initiatives in the proposed legislation that cut across the other priorities. The first is Emergency Disasater Response. Based on the Department's recent experience responding to earthquakes in California, Florida and Hawaii, and floods in the Midwest, the bill would permit the Secretary to waive most statutes and regulations whenever the President declares a disaster or emergency. This will give much greater flexibility to respond as rapidly and effectively to local needs. The Act would broaden the use of CDBG, HOME, Section 8, FHA, and public housing resources in these life-threatening situations.

The bill also contains numerous provisions to increase savings through management reforms, streamlining of administration, eliminating programs, faster recapture of unspent grant funds, and tougher enforcement measures and stiffer monetary penalties against corruption and abuse by HUD clients.

Conclusion

Mr. Chairman and Members of the Committee, we are now pleased to present you more detailed overviews by program area from the Assistant Secretarys. Thank you.

Statement of Andrew Cuomo

Assistant Secretary for Community Planning and Development

Before the Subcommittee on Housing and Community Development

of the House Committee on Banking, Finance and Urban Affairs

Thursday, April 14, 1994

Mr. Chairman and Members of the Committee:

I am pleased to appear before you once again, and I extend my gratitude for the passage of the Housing and Community Development Act of 1994. The changes implemented through the Act have placed HUD in a stronger position to help communities of need across the country. Today I will discuss the most vital component to the reinvention of HUD, the 1994 Reauthorization of HUD's legislative program, in particular, the Community Planning and Development portions of the bill.

The legislative proposals carry out a number of underlying themes or principles at HUD and CPD. The first of these principles is "bottom up" planning. This is a recognition that the best community development is created neighborhood by neighborhood, with comprehensive solutions shaped from the bottom up, with and for each community. Accordingly, we are proposing a community viability fund which would, among other things, provide community institution capacity building, community-based strategic planning and neighborhood development.

Second, we must develop a consolidated approach to address community and neighborhood problems. Narrow functional programs cannot solve complex problems of the individual family or neighborhood. Part of the comprehensive approach is developing active partnerships for both planning and implementation. To apply the comprehensive approach to help the homeless, we have proposed a new comprehensive program, Homeless Assistance Grants, to help local communities support a continuum of care concept. We have also applied the concept to colonias, very poor communities in the Southwest Border States, by seeking special funds for their comprehensive development.

Third, we must empower people to help themselves by creating jobs and providing them with the skills to take advantage of these jobs. Economic development, tied in closely with human development, plays a pivotal role in comprehensive planning for urban and community development. For this reason we have proposed the grants for Empowerment Zones and Enterprise Communities and a proposed Leveraged Investment for Tomorrow program, a project-based neighborhood economic development program. These initiatives, along with our efforts to make better use of the CDBG program for economic development and the existing empowerment zone program should provide a solid economic growth package for small and large cities.

Our regular programs for which we are seeking assistance will also be administered in a way to carry out these principles to achieve comprehensive housing and community development.

I am happy to submit the Community Planning and Development portion of the HUD reauthorization package. This bill will strengthen our Nation's commitment to its communities by

Community Development Block Grants

Amendments to the Community Development Block Grant Program (CDBG) are designed to improve its ability for comprehensive neighborhood revitalization by including housing reconstruction as part of rehabilitation, improving the program's management, and permanently extending the homeownership assistance component.

Improvements in the management of the CDBG program are based on the charge from the Vice President and HUD grantees to streamline management processes. The funds acquired by HUD through grantee failure to comply with certain requirements will be redistributed based on grantee performance, rewarding good performers for their work. Currently, HUD uses a formula to redistribute these funds, but a more output-driven system which rewards good performers will improve services for all HUD's customers.

HOME

The HOME program allows participating jurisdictions to choose from a wide range of housing activities--from rehabilitation, to new construction, to rental assistance for tenants and assistance to homebuyers--which best meet their needs. With the statutory simplifications resulting from the passage of the Housing and Community Development Act of 1994, as well as many regulatory simplifications, the HOME program is now a much more flexible tool for all those involved in improving housing. The program, however, still requires a few more important changes which I ask this committee to recognize.

Currently, funds for community development housing organizations (CHDOs) which are not committed are recaptured and reallocated through a competition. Other funds not committed are recaptured and reallocated by formula. The first necessary change will be to reallocate the funds based on performance, similar to the previous proposal I mentioned for CDBG. This will create output incentives for grantees, and stimulate competition based on service to the community.

The second amendment sought for the HOME program is to simplify the overly-complex determination for rental caps in units of affordable housing. The change is to move away from the complexity of the current law and set the cap at the predetermined Fair Market Rent (FMR) for the area. The FMR calculation is already extensively used by HUD for other programs. Making this change will create greater consistency in HUD programs, which results in simpler program administration for HUD and greater program understanding for HUD grantees.

The third amendment sought in the reauthorization bill is to establish a HOME loan guarantee program. All HOME grantees will be eligible for the loans, and may borrow up to five times their grant allocation. The grantees will pledge their grant allocations as repayment. The result of this change will be to aid grantees who are creating innovative answers to their community's housing troubles. Many grantees have come to us with large projects involving intricate partnerships that cannot be aided through the current program. The loan guarantee program must be implemented to stimulate and facilitate these larger projects based on new partnerships.

Technical Assistance

Amending the way HUD provides technical assistance to community groups is crucial to the proposed reinvention of HUD. Currently, HUD contracts out the provision of technical assistance. Often grantees get training before HUD field staff does. The amendments in the reauthorization include giving HUD the ability to perform technical assistance directly. This will put our field offices directly in touch with our grantees and their communities, enhancing the bottom-up strategy of the reinvented HUD.

New Economic Initiatives

The reauthorization bill presents new economic initiatives which act in combination with the Economic Development Initiative (EDI) which was included in the recently passed Housing and Community Development Act. Together, the programs fill critical gaps in the arsenal of tools for providing needed jobs and revitalizing distressed communities.

The LIFT program is a project-based neighborhood economic development program that will stimulate investment in economic and physical revitalization projects to improve the quality of life in urban neighborhoods. It will create partnerships by providing subsidies to encourage private investment in strategic development projects that further the comprehensive revitalization of distressed urban neighborhoods. These partnerships are estimated to generate 9,000 new jobs, and $19 million in annual tax revenue to help distressed communities get on their feet. LIFT will also provide a source of extremely patient secondary financing that is available nowhere else.

By contrast, EDI, already passed by Congress, focuses on community revitalization and would be used by communities to further their overall economic revitalization strategies. It would not be required to be targeted to specific neighborhoods and could be used to fund more finite activities such as micro-businesses enterprises.

A another initiative, the Zone Economic Development Initiative (ZEDI) will provide grants to support the financing of capital projects, including housing and economic development projects in six urban Empowerment Zones and 65 urban Enterprise Communities. Incentives are provided for working in partnership with different community interests. Grants could be used for a range of activities, at local discretion, including: repayment of debt financed by municipal bonds; financing of projects in conjunction with the Section 108 Loan Guarantee program and other economic development projects; and, support for project-based rental assistance and other housing initiatives. An estimated 22,000 jobs will be created by the program and approximately $48 million in annual tax revenue.

Community Viability Fund

The Community Viability Fund provides the glue to hold all this economic development and other planning activities together.

It will create an incentive grant and recognition awards program for communities and neighborhood organizations that have made or will make a significant, innovative contribution to the revitalization of American communities and neighborhoods. Eligible activities include strategic planning and urban design, community institution building, neighborhood development, and the expansion and improvement of the quantity and quality of amenities and services in urban areas. This program will involve various interests in planning and developing their community as full partners, inspiring hope and backing it with action.

Other Initiatives

Colonias Assistance. The reauthorization proposes to assist State and local efforts to address the severe housing and infrastructure needs of colonias in the U.S.-Mexico border region. Funds will be used in partnership with funds provided by the States of Texas, New Mexico, California and Arizona, other federal and local government agencies and non-government organizations in those States. Federal assistance will be used to enhance and supplement State and local efforts conducted as part of a comprehensive strategy to mitigate public health risks, create safe, affordable and decent housing and provide economic development opportunities for residents of colonias.

Youthbuild. The proposed change would amend the act to make the program more cost-efficient as a training mechanism and make cooperation with the program more attractive to developers.

HOPE Grants. The proposed change to the HOPE program allows grantees flexibility in program design by allowing units to be transferred before they are habitable. It reduces the amount of time for promissory note returns from 20 years to 15 years. Finally, it permits public agencies apply independently.

Mr. Chairman, that concludes my opening remarks. I will be happy to answer any questions that you might have.

STATEMENT OF

ROBERTA ACHTENBERG

ASSISTANT SECRETARY FOR FAIR HOUSING AND EQUAL OPPORTUNITY

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

BEFORE THE

HOUSE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

CONCERNING REAUTHORIZATION OF HUD PROGRAMS

APRIL 14, 1994

Mr. Chairman, members of the Committee, I am pleased to have the opportunity to testify on H.R. 3838 and HUD's 1995 legislative package concerning programs of interest to the Office of Fair Housing and Equal Opportunity.

H.R.3838

The bill introduced by the Chairman contains reauthorization of the Fair Housing Initiatives Program (FHIP) for the years 1995 and 1996. We are pleased to see the continuing increase in funding for this program. Congress revised the FHIP program in the Housing and Community Development Act of 1992, by adding an increased focus on lending discrimination and building the capacity of fair housing enforcement organizations, particularly in unserved and underserved areas. We have responded to the lending initiative by undertaking a study of pre-application practices of lenders in three cities through testing of lending institutions (both depository and non-depository). The results of that study are expected late this summer.

We have just completed reviewing the FHIP applications for the latest funding cycle and expect to announce the winners of the competition in the near future. I was struck by the breadth and diversity of the proposals being submitted and the many new groups that are applying for funding.

We will soon be publishing our Fiscal Year 1994 Notice of Funding Availability (NOFA) and be able to place even more FHIP funds in the hands of the private fair housing organizations (and State and local human rights agencies) that have played such a key role in advancing the fair housing agenda through enforcement and education and outreach.

FY 1995 ADDITIONAL PROPOSALS

Mr. Chairman, you will soon be receiving a number of additional legislative proposals relating to Fair Housing and Equal Opportunity. These proposals support the efforts of the President, as evidenced by Executive Order 12892, and those of Secretary Cisneros, to affirmatively further fair housing, to continue the assault of the Federal Government on lending discrimination and to enhance economic opportunities in connection with HUD programs. The proposals are summarized as follows:

- Metropolitan Areawide Assisted Housing Strategy Demonstration
- Treating Expenditures to Affirmatively Further Fair Housing as Eligible Activities in their own Right under the Community Development Block Grant Program
- Expanded use of amounts in Section 213(d)

Headquarters Reserve in Connection with Civil Rights Litigation

- Authority to Levy Civil Money Penalties on Non-Reporters under the Home Mortgage Disclosure Act

- Economic Opportunities for Residents in HUD-Assisted Programs

METROPOLITAN AREAWIDE ASSISTED HOUSING STRATEGY DEMONSTRATION

Under this three-year demonstration the Secretary would select consortia of units of general local government in three different regions to market HUD-assisted housing on a metropolitan areawide basis. The demonstration is designed to determine how best to:

- affirmatively further fair housing and address the problem of racial segregation in metropolitan areas,
- fill vacancies in assisted housing by use of consolidated waiting lists,
- enlist cooperation of local governments, public housing agencies and private owners of assisted housing in affirmatively furthering fair housing,
- make public housing a path to social and economic mobility, and
- eliminate housing discrimination

A nonprofit organization would administer a clearinghouse in each metropolitan area. The clearinghouse would operate a consolidated waiting list of available Federally-assisted housing units in each participating metropolitan area. PHAs and other housing providers would report their vacancies to the clearinghouse as they occurred. The clearinghouse would carry out an active housing counseling, fair housing information and support program to encourage applicants to consider housing throughout the area.

An independent evaluation of the demonstration would assist HUD and the Congress to determine whether current programs should be revised or new ones created.

The program would be funded through a set-aside of up to 3,000 tenant based certificates for each of the three years; $9 million in modernization funds to be provided to central city PHAs participating in the demonstration. This $9 milliion will be used to increase the security and enhance the attractiveness of the properties of participating PHAs. In addition, $15 million a year will be spent for costs relating to regional planning, housing counseling and administrative costs of the demonstration.

CIVIL MONEY PENALTIES FOR HMDA VIOLATORS

When Congress passed the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) it substantially strengthened the Home Mortgage Disclosure Act (HMDA) by requiring the reporting of the race, gender and income of borrowers and applicants for home mortgages.

The Act also established the Secretary of HUD as the designated reporting agency for lenders not regulated by other Federal financial agencies. FIRREA also attempted to provide enforcement authority to HUD to assure proper HMDA reporting, but failed to do so. And the Department of HUD Reform Act of 1989 provided civil money penalty authority, but only with respect to mortgagees that do business with HUD. Although a number of reporters are HUD-approved mortgagees a number of them are not. These reporters are free to ignore the requirements of HMDA without any remedial action available to the Department.

This Administration has been very aggressive in its pursuit of lending discrimination. A ten-agency Interagency Task Force on Lending Discrimination was convened by Secretary Cisneros, Attorney General Reno and Comptroller of the Currency Ludwig along with active participation by the Office of Thrift Supervision, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Housing and Finance Board, the Federal Trade Commission, the National Credit Union Administration, and the Office of Federal Housing Enterprise Oversight. Just last month, the Task Force issued a major Policy Statement on Lending Discrimination stating that, for the first time, they would consistently enforce a law that has been on the books for 26 years. While the statement itself was a consolidation of existing law, the event was without precedent in the annals of banking history.

Part of this lending enforcement effort includes review and analysis of HMDA data. Obviously, the combined efforts of these agencies to enforce both the Fair Housing Act and other civil rights statutes will not be limited to lenders who do business with HUD. Equalization of the civil money penalty requirements for all HMDA reporters will help ensure consistent and effective enforcement. Therefore, we believe that it is appropriate to fill the gap in enforcement of HMDA by allowing HUD to levy civil money penalties against non-reporters or those who submit inadequate or incomplete data.

ECONOMIC OPPORTUNITIES FOR RESIDENTS IN HUD-ASSISTED PROGRAMS

Section 3 of the Housing and Urban Development Act of 1968 has never lived up to its promise. Congress wanted HUD to provide job, training and business opportunities to residents of the neighborhoods surrounding HUD assisted housing and community development projects. It took the Department five years to issue its first Section 3 regulations, which it finally did in 1973 only after a Federal District Court judge threatened to jail then-Secretary Lynn if the regulations were not forthcoming.

Despite several legislative changes to section 3 HUD never updated its regulations. The promise of the Act became virtually a dead letter. Then, in 1992, Congress revised and breathed new life into Section 3. HUD responded by publishing proposed regulations in late 1993. Interim regulations will soon be issued.

However, even with the new legislation and regulations, Section 3 is likely to continue to fall short of its promise because recipients and contractors need assistance in meeting their obligations. We propose that HUD program funds be made available for job-related activities, such as training, supervision of trainees and job recruitment. In addition, we will request an authorization of $25 million for FY 1995 to support the creation of Economic Opportunity Centers, (EOC), to establish employment and business initiatives with other Federal agencies (Departments of Labor, Commerce, Health and Human Services and the Small Business Administration) and to develop a Section 3 management and technical assistance program.

The EOCs would be co-located with Family Investment Centers and coordinated with the Public Housing Comprehensive Grant program. Thus, residents could be linked with the jobs generated by HUD-assisted construction. The EOCs could maintain job banks, assist contractors to develop Step-Up and other training and apprenticeship initiatives, and train and fund resident councils to spread the word about Section 3.

We believe that with the adoption of these regulations the promise of Section 3 would be more fully realized after 25 years of inaction.

Thank you for the opportunity to present our program, Mr. Chairman. I would be happy to answer any questions.

Testimony of Assistant Secretary Joe Shuldiner - Thurs, April 14

Mr. Chairman, I want to thank you and the members of your Subcommittee for the invitation to testify before you this morning. I welcome the opportunity to discuss the Office of Public and Indian Housing's (PIH) legislative priorities for Fiscal Year (FY) 1994.

To begin with, I would like to commend the Committee for passing the Multifamily Housing Property Disposition Reform Act of 1994 -- which contained several key provisions affecting public housing -- and for drafting an authorization bill which includes many proposals with which we are in substantial agreement. We look forward to working with you, the Committee members and your staff on these and the other legislative proposals which I will outline today.

The Department of Housing and Urban Development's (HUD) legislative agenda for FY 1994 consists of numerous proposals affecting varying areas of public and Indian housing operations. However, each of these proposals represents a means to achieving one common goal -- improving the quality of life for residents of public and Indian housing. In the context of the Department's emerging new partnership with public and Indian housing authorities, local communities, residents, and other interested parties, PIH's legislative priorities will help to: 1) facilitate the rehabilitation and development of public and

Indian housing units; 2) improve program operations and delivery of services to public and Indian housing residents; 3) provide greater mobility and broader housing choices to public and Indian housing residents; and 4) empower lower income families by giving them opportunities to take control of their lives.

Facilitating the rehabilitation and development of public housing

Current policies and procedures often result in construction and rehabilitation of public housing units which are unappealing and otherwise undesirable. In architecture, massing and scale, public housing should blend into surrounding neighborhoods, and housing density should be reduced. PIH has already begun to overhaul our development and modernization programs to assist local housing authorities in reaching these goals. We are simplifying program regulations, expediting the delivery of funds, revising design standards and cost containment policies, reducing density standards, allowing greater flexibility, and delegating more responsibility and discretion to the local level. These concepts are also the foundation of our modernization and development legislative proposals.

With respect to severely distressed public housing, we have proposed changes to the section 24 revitalization grants program to incorporate advantageous provisions from the Urban Revitalization Demonstration (URD) program. The proposed revisions would amend replacement housing requirements to expedite the revitalization process and provide Public Housing Authorities (PHAs) with more flexibility in planning for the future of their housing stock. We are also proposing, in circumstances where a portion of a public housing development receives section 24 or URD funding and has an approved comprehensive plan, that any additional revitalization funding made available to that development can, at HUD's discretion, be subject to the section 24 or URD requirements regardless of the funding source. In addition, we are proposing to remove the URD and section 24 programs from the constraints of the Housing Act of 1937. These actions will provide the flexibility necessary for PHAs to move aggressively and comprehensively in implementing their revitalization plans, and will go a long way towards fundamentally changing the institutional and physical environment of severely distressed public housing.

The Department is also advocating a number of legislative changes which impact PIH's traditional modernization programs. For instance, we believe that housing authorities should be permitted to use modernization funds for the development of replacement housing required under the demolition and disposition statutes. This would provide housing authorities with the flexibility to determine whether replacement, rather than rehabilitation, would be a preferable option economically and socially under the public housing modernization program. We also believe that the Major Reconstruction of Obsolete Public Housing (MROP) program should be repealed, since the establishment of the

URD and recent changes to other modernization regulations have rendered the program obsolete. Additionally, PHAs should be authorized to use MROP funding already in the pipeline in combination with other modernization funding to rehabilitate the same project or building. These provisions would not only ease the administrative burden on PHAs and HUD, but they would allow PHAs to address their most problematic developments in a more efficient, coordinated fashion.

Finally, we are requesting that Congress establish a loan guarantee program for the Comprehensive Grant program, similar to the Section 108 authority for the Community Development Block Grant (CDBG) program. This will provide housing authorities with a sufficient source of financing for modernization activities, so they can address current rehabilitation needs immediately rather than waiting until sufficient modernization funds are available in the future. Adoption of this program will allow PHAs to spend greater amounts of modernization funds annually, and help to eliminate the backlog of modernization needs.

With respect to the Department's development program, we are proposing that the Secretary be permitted to recapture amounts reserved for development of specific public housing projects without waiting the entire 30-month period that is now required. This discretion could be exercised in situations where the Secretary makes a specific finding that there is no feasible way for the project to begin construction or rehabilitation, or to complete acquisition, within the 30-month period. The proposal would retain the exclusions from the time period for factors beyond the control of the public housing agency. Adoption of this proposal would help to expedite the development process at the local level, as well as the process by which HUD can make recaptured funds available to other assisted housing projects.

HUD has also proposed repealing two provisions in the U.S. Housing Act which adversely affect public and Indian housing development:

1) Section 5(j)(1), which places unnecessary requirements on the PHA to document its need to develop additional public housing units; and
2) Section 6(h), which places unnecessary requirements on the PHA to demonstrate that the cost of new construction in the designated neighborhood is less than the cost of either the acquisition or acquisition and rehabilitation of existing housing.

Repealing these provisions would substantially reduce the paperwork preparation and review burdens placed on PHAs and HUD staff, and is consistent with the Department's overall goal of instilling simplicity and flexibility into PIH development and modernization programs.

Improving program operations and delivery of services

Although the great majority of public housing authorities administer their programs efficiently and effectively, there are some housing authorities which have difficulties in managing their public housing stock. In an effort to better help these authorities deliver their services, HUD will reorganize its Field Office operations effective April 15th. Field Office staffing is being restructured from generalists (housing management specialists, financial analysts, engineers) to functional area specialists reflecting the typical structure of public housing agencies: 1) organization, management and personnel; 2) community relations and involvement; 3) facilities management; 4) finance and budget; and 5) marketing and leasing management. These areas are designed to target, diagnose and resolve PHA performance problems by focusing on results; forming problem solving partnerships; and using risk based monitoring. The implementation of the new approach began in late 1993 using HUD-staffed change agent teams going on-site to provide training and technical assistance.

In coordination with these efforts, we are proposing legislation for FY 1994 which will help HUD and PHAs to identify and address the primary causes of management deficiencies. For instance, we are proposing that set-asides from modernization funding and development funding be used to contract expertise to assist in the oversight of PIH modernization and development programs, and to provide HUD with expert technical resources to assist in the management of housing authorities. Specifically, contracts could be awarded to: 1) hire inspectors to conduct inspections, appraisals, cost estimates, and monitor the quality of work; 2) provide expert technical assistance and diagnostic support to PHAs with regard to implementing administrative, technical or financial system improvements as well as resolving management deficiencies; 3) provide a resource for emergency response actions ranging from "SWAT teams" to PHA takeovers; and 4) administer resident satisfaction surveys to a national sample of public housing residents.

In an effort to further develop innovative management techniques, HUD is proposing that an "entrepreneurial PHA" demonstration program be authorized. Under this demonstration, the Secretary would be permitted to approve requests for waiver of statutory requirements to permit up to 25 selected housing authorities and/or Resident Management Corporations (RMCs) to set their own policies for the operation, maintenance, management, and development (including modernization) of any of their projects. HUD could also specify alternative requirements in connection with the demonstration. Entrepreneurial PHA demonstrations would therefore promote innovation in addressing public housing issues by: 1) allowing PHAs to identify statutory impediments to achieving their objectives; 2) encouraging local decision making; and 3) providing HUD with valuable first hand experience on what truly reinvented public housing programs may be.

HUD is also proposing that the Office of Management and Budget's procurement requirements be established as the sole requirements housing authorities and resident management corporations would have to comply with in spending Federal funds, including modernization, development and operating monies. The effect of this would be to supersede any State or local procurement requirements that would otherwise be in effect in implementing HUD's public housing programs, thereby replacing layers of procurement requirements with a uniform, commonly accepted requirement. This would be an important step in reinventing the way PHAs and RMCs do business.

The Department has proposed a revision to the Vacancy Reduction program to ease program administration, and a revision to the Public Housing Management Assessment Program to provide a better measurement of modernization progress. These proposals, as well as those described above, are reflective of HUD's commitment to working with PHAs to improve program operations and service delivery in PIH programs.

Providing greater mobility and housing choices

PIH continues to view Section 8 assistance as the primary means for relieving the concentration of poor and minority families in urban communities. We are therefore proposing some significant administrative revisions to assure the more efficient operation of this program.

The most comprehensive of these is a proposal to merge the Section 8 voucher and Section 8 certificate programs. By condensing these two similar programs into one program which retains the best features of each, PHAs would only have to comply with one set of program rules and reporting requirements, and work with only one rent calculation formula. It is anticipated that this simplification will significantly increase PHA staff efficiency while greatly reducing administrative errors and associated costs for both HUD and the PHA. The National Performance Review report estimates that the merger of these two programs will generate nearly $130 million in savings over the 1995 to 1999 period. While not reducing HUD's budget or spending levels, these savings will enable PHAs to help many more families locate the housing of their choice.

In a separate legislative proposal, we have requested that Congress change the way HUD determines fees which are paid to PHAs for the costs of administering the Section 8 program. The Department estimates this legislative proposal would reduce the costs of HUD reimbursements to PHAs for program administration by an additional $87 million.

The Department is also proposing that Congress fund a "Choice in Residency" initiative as a means of facilitating enhanced metropolitan-wide housing searches. Choice in Residency would provide individual counseling to families applying for or already receiving tenant-based assistance under the Section 8 certificate and voucher programs. Activities under this program include, but are not limited to: 1) developing strategies for a successful housing search; 2) transportation assistance and other services to assure access to low-poverty tracts; 3) information and counseling as the families adjust to their new environment; and 4) aggressive outreach to property owners to expand the availability of housing outside of high poverty census tracts. This program would be funded at $149.1 million for FY 1995 and 152.9 million for FY 1996, and HUD estimates that as many as 200,000 families could be assisted annually. It is reflective of HUD's commitment to providing a more geographically and economically diverse range of settings for assisted housing residents.

Empowering lower income families to become self-sufficient

HUD remains committed to the belief that lower income families should be given the opportunity to experience the dignity of meaningful work, to be self sufficient, and to participate in a meaningful way in the management of their housing. In this spirit, PIH's legislative agenda contains many proposals which encourage this movement towards independence.

Independence and self sufficiency can only be fostered in environments that are physically secure. However, the twin scourges of crime and drug abuse have engulfed public housing to a degree disproportionate to the rest of society. It is urgent that Congress honor our request to replace the existing Public Housing Drug Elimination Grant program with the Community Partnerships Against Crime (COMPAC) program -- a program considerably broader in its scope. COMPAC would cover all types of criminal activity, not just drug-related crime. It would allow for community policing, youth recreation and sports programs, anti-gang activities, resident participation and services, and improved security equipment and retrofitting of buildings among its eligible activities.

In conjunction with this proposal, the Department has asked Congress for more latitude in banning handguns at assisted housing projects and making criminal records available for screening and eviction procedures. These proposals, along with COMPAC, are instrumental in assuring the safety of public and Indian housing residents, and helping to provide an environment where they can become self sufficient.

The Department is proposing two significant changes in rent policy which we believe will create work incentives for residents of public and assisted housing. One proposal would revise the current method for setting ceiling rents; replacing a cost-based approach with a market-based approach. The new methodology would allow housing authorities to set ceiling rents for their projects at a reasonable rental value for units in the project, as approved by the Secretary. Ceiling rents encourage poor, working households to earn more money and to remain in public housing for a longer period of time. These families will set a positive example for children growing up in public housing developments and will provide stability and leadership to the community.

A second proposal would disallow increases in rent for 18 months for any family in public housing whose income increases as a result of employment of a member of the family who was previously unemployed for one or more years. This would provide strong work incentives for unemployed persons. Another advantage of this proposal is that it allows dependent children to become employed without the overall rent for the family increasing for an 18 month period.

HUD has proposed separately that Congress authorize a demonstration program examining flexible use of income disregards and ceiling rents. This demonstration would include an evaluation of their effectiveness as tools for encouraging increased earnings and higher employment rates among public housing residents.

In addition to providing work incentives, HUD wants to help create the conditions necessary for public housing residents to obtain employment. To this end, we are proposing that the Resident Management program be significantly expanded to include social support needs of residents in public housing. Under a newly named Tenant Opportunity Program (TOP), HUD would be authorized to provide assistance to RMCs and Resident Councils in support of a wide variety of activities for economic uplift which are sponsored by resident organizations. Eligible activities include job training, economic development, security, and other self-sufficiency activities beyond those related to the management of public housing developments. We are also recommending that the Family Investment Centers (FIC) program be revised to allow PHAs to provide more funds to cover the costs of supportive services related to the provision of educational and employment opportunities for public housing residents.

These self sufficiency initiatives, like the rest of PIH's legislative proposals for FY 1994, will help improve the quality of life for all residents of public and Indian housing.

Mr. Chairman, that completes my statement. I will be happy to answer any questions you and the members of the Subcommittee may have.