

DEPARTMENTS OF TRANSPORTATION, TREASURY, THE JUDICIARY, HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2006

THURSDAY, APRIL 14, 2005

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:30 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond, Stevens, Murray, and Leahy.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

STATEMENT OF ALPHONSO JACKSON, SECRETARY

ACCOMPANIED BY:

KENNETH M. DONOHUE, INSPECTOR GENERAL
JOHN C. WEICHER, ASSISTANT SECRETARY FOR HOUSING

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. The Senate Appropriations Subcommittee on Transportation, Treasury, the Judiciary, HUD, and Related Agencies will come to order.

We welcome Secretary Alphonso Jackson for appearing before us today to testify on the Department of Housing and Urban Development's fiscal year 2006 budget request.

Last year, we did not have the benefit of a complete statement from you, having been newly confirmed as Secretary the night before the hearing. This year, I look forward to your comments after a year on the job.

I think I may have cautioned you about taking the job, but you do it so well, and we appreciate very much your expertise and commitment to the program.

The budget request proposes some \$28.5 billion, a decrease of some \$3.38 billion or almost 11 percent from the 2005 funding level of \$31.9 billion.

Unfortunately, the overall 2006 funding level does not accurately reflect the requested overall spending for HUD's many programs. The budget numbers are distorted through a budget rescission request of \$2.5 billion as well as by how FHA receipts are treated for

purposes of the 2006 budget. In fact, the overall funding for HUD programs is far worse than OMB has indicated.

Proposed reductions to individual HUD programs include, among others, some \$4.67 billion from CDBG funding, \$118 million from Housing for Persons with Disabilities, \$14 million from Housing for Persons with AIDS, \$24 million from Rural Housing and Economic Development, \$24 million from Brownfields, almost \$286 million from HOPE VI, \$226 million from Section 8 Project-Based Assistance, and \$252 million from the Public Housing Capital Fund.

In addition, the Lead Hazard Reduction Program that Senator Mikulski and I started has been totally eliminated. This program is one of the most important things we can do to stop the lead poisoning of our children in low-income housing in many major cities.

PROPOSED RESCISSIONS

I also am especially troubled by a proposed \$2.5 billion rescission for which neither HUD nor OMB has been able to or willing to identify the source of funding. I sincerely doubt there is adequate money to rescind from HUD programs without jeopardizing their mission.

These program cuts are even more disturbing because of reductions and shortfalls in other programs within the jurisdiction of the subcommittee.

Mr. Secretary, I know you have an obligation to defend the administration's budget and policy decisions no matter how problematic. I also understand and support the need for the administration to make difficult funding decisions in order to contain and reduce the Federal budget deficit.

Unfortunately, I believe that the President has been getting some very bad advice from OMB about the housing and community development needs of the Nation. The HUD budget as well as a number of other proposed legislative and policy initiatives reflect this bad advice.

Unfortunately, these problems go beyond HUD, leaving the subcommittee to confront huge challenges in trying to balance funding decisions among the many programs and priorities within the entire THUD fiscal year 2006 Appropriations Bill.

As always, HUD represents one of our largest challenges. Unfortunately, the administration's overall budget for domestic discretionary spending will make reversing many of these recommendations impossible or compel Congress to eliminate funding from other important and necessary programs.

There is a little bit of good news, Mr. Secretary. I applaud you for fighting the good fight in attempting to preserve Section 8 tenant-based vouchers at a level that will sustain current voucher use. And while I am disappointed over public housing capital and operating funding levels, I know you also staved off much larger reductions as proposed by OMB. In addition, home ownership is at its highest level in history with some 73.7 million homeowners.

PREDATORY LENDING

I also applaud your efforts to stem the abuses of predatory lending, something that this subcommittee, with Senator Mikulski leading, has been championing by banning flipping, by increasing home

ownership counseling, and by putting in place more stringent appraisal requirements. Unfortunately, this is the good news, but the list is too short for an agency as important as HUD.

SACI

For the bad news, I am very disappointed that the administration has proposed to dismantle the CDBG program along with some 17 or more other programs and replace these programs with a new block grant in the Department of Commerce called Strengthening America's Community Initiative.

The administration also is proposing to fund this initiative at \$3.7 billion, which is an overall reduction of almost \$2 billion or 34 percent from the 2005 level for all these programs. The proposed elimination of CDBG is a tragedy, but the reduction in funding makes this proposal a double tragedy.

Communities across the Nation rely on CDBG to fund critical housing and community development programs. This program works. However, without these funds, many local programs will falter and even fail. Equally important, CDBG is a critical component of HUD's mission. CDBG helps to make HUD's housing mission successful. Without CDBG, it is the Department of Housing. And with all of the changes proposed, HUD would just be about home ownership and a few rental housing block grants. HUD would no longer merit cabinet status.

Moreover, the use of CDBG consolidated plans helps to ensure that communities tie together CDBG, housing funds, and other Federal and State resources into a comprehensive approval to local housing and community authorities. As history tell us, successful community development programs rely on a comprehensive approach to housing and community development. Without CDBG, HUD is like a one-armed pitcher trying to field a bunt.

I know CDBG has problems. CDBG funds are not always used well or effectively. Even Kansas City, Missouri, with a vibrant and progressive nonprofit community, recently identified significant abuses within the CDBG program. However, these problems are being addressed and resolved. The key is to fix the problems in good programs, not dismantle the programs.

Moreover, HUD, OMB, and certain interested parties recently ratified a consensus document to address weaknesses in the CDBG program by creating an Outcome Measurement System to establish new benchmarks and better oversight. Since the document addresses many of OMB's concerns, I am puzzled by the administration's effort to dismantle a program that has been redesigned to become more effective according to administration requirements.

HOPE VI

I am also very much concerned about the administration's approach to public housing. The administration is seeking to eliminate HOPE VI as well as rescind the HOPE VI fiscal year 2005 funding of \$143 million.

As an alternative, the administration has issued a proposed regulation that will authorize PHAs to demolish the remaining obsolete public housing.

As you may know, I set the stage for HOPE VI by including a demonstration project in the 1990 National Affordable Housing Act that allowed the demolition and replacement of the Pruitt-Igoe public housing in St. Louis with vouchers and new housing.

Before this demonstration, PHAs could not be demolished without a one-for-one hard unit replacement. Because of the cost of this policy, public housing programs were limited to the warehousing of the poor in obsolete and deteriorating PHA high-rises.

HOPE VI provided for the demolition of this obsolete housing along with the creation of mixed-income, private and public housing. This program also leveraged private investment and promoted the revitalization of entire communities.

While HOPE VI is not a perfect solution to all the woes of obsolete public housing, it has transformed many PHAs and communities, including many in Missouri, which is now, I believe, a shining example of how it can work, by replacing obsolete public housing with mixed-income, public and private housing. In many cases, HOPE VI housing has leveraged new investment in communities. This means new business, an increased tax base, better schools, and safer communities. It is unfortunate that the budget rules do not recognize these very tangible economic and social benefits. However, I think you and I know from personal experience that these benefits are real and significant.

NEGOTIATED RULE-MAKING

The administration has also broken a promise to develop a new operating fund formula by negotiated rule-making. Over the last 5 or more years, HUD has worked with PHAs through negotiated rule-making to develop a new budget-based operating plan formula to ensure a more equitable system of allocating operating subsidies to PHAs. Millions of dollars have been spent on the process. Nevertheless, a negotiated rule went into OMB's rule-making review process and came out a much different flavor of sausage.

One expects OMB to make modest changes to a regulation under review but one does not expect wholesale revisions in violation of the spirit of legislation that required the negotiated rule-making. I have not yet had an opportunity to review the rule. But to highlight my concerns, I am advised that under the negotiated rule, 62 Missouri PHAs would have gained operating subsidies while 41 PHAs would have lost subsidies. Under OMB's changes, only 13 Missouri agencies would gain and 91 would lose funding. There is something wrong here.

PUBLIC HOUSING CAPITAL FUND

Equally troubling, HUD's 2006 budget request includes a \$252 million reduction in the Public Housing Capital Fund despite an estimated \$20 billion backlog in modernization needs.

BLOCK GRANT SECTION 8 VOUCHER ASSISTANCE AND HOMELESS FUNDING

HUD also is proposing new legislation to block grant both Section 8 voucher assistance and homeless funding. I have not yet seen the proposal to block grant homeless assistance funding. I

support the approach assuming it is adequately funded and includes meaningful oversight. Nevertheless, the process needs sunshine.

I have seen the Section 8 voucher block grant proposal and it fails on a number of levels. First, the proposal fails to allow jurisdictions with real flexibility to use these funds for project-based assistance even in areas of the Nation where vouchers do not work because of tight rental markets. This means the administration only wants to provide flexibility on its own terms and not based on local needs and conditions.

More disturbing, the Section 8 proposal would eliminate the requirement that 75 percent of all vouchers go to extremely low-income families, those at or below 30 percent of median income. This is a critical requirement that ensures those with worst case housing needs receive priority in the award of scarce Section 8 housing assistance. Without the requirement, the number of homeless will continue to grow without real housing alternatives. This runs counter in my view to the administration's promise to end chronic homelessness within 10 years. This will promote homelessness rather than end it.

ZERO DOWNPAYMENT HOME OWNERSHIP PLAN

Finally, I am very troubled by the proposed FHA Zero Downpayment Home Ownership plan. As with last year, the proposal continues to pose substantial financial risks over time to the FHA Single Family Mortgage Insurance program, the Mutual Mortgage Insurance Fund. Without downpayments, new home buyers will have no stake in their new homes and will have limited ability to pay for any substantial repairs like a failed furnace or a leaky roof. As we discussed last year, FHA was close to bankruptcy in the late 1980's due to defaults from assisting families to purchase homes with high loan-to-value ratios. These houses were often in marginal neighborhoods. And once the homeowners defaulted, the housing would often remain unsold and thus drive down the housing values throughout a neighborhood. Some of the neighborhoods are still trying to recover from the foreclosures. Also, families in default have their credit ruined.

According to HUD's IG audit of FHA's financial statements for 2004 and 2003, the Mortgage Insurance Program suffers increasing default rates and claims. Over the last 5 years, defaults have increased from 3 percent in fiscal year 2000 to almost 7 percent in 2004. Claims have risen from \$5.5 billion in 2000 to \$8.5 billion in 2004.

Clearly, FHA has effectively become the lender of last resort, taking on the most risky mortgages with greatest risk of default. A new zero downpayment program will only enhance that risk.

I have been working on housing and community development since I was governor of Missouri. And despite my continuing efforts to reform HUD and support housing and community developments, HUD continues to remain in decline, characterized by failed programs and policy. I still believe this trajectory of failure can be stopped, but I am dismayed at the lack of support from OMB.

And I know, Mr. Secretary, you face an uphill battle with an administration that seems to have little interest or commitment to

HUD's programs and seems to be committed to dismantling the modest success that HUD has achieved.

I do not understand. When housing and community development investments work well, everyone benefits through more jobs, an increased tax base, better schools, and improved communities. Where we fail to create the right programs or fail to invest in these programs, neighborhoods deteriorate and the quality of peoples' lives suffer. It is that simple.

I am not looking for big increases in HUD programs. I believe that we need to preserve existing programs and try to build on successes where possible. We may not agree on everything, but I know you believe in the importance of HUD's mission and the need for HUD to be a leader and partner in housing and community development across the Nation.

PREPARED STATEMENT

I look forward to continuing to work with you. However, we need to revitalize and rebuild the public's confidence in HUD, and I look forward to hearing your vision for the department's future.

Now, with apologies for the length of the statement, I had to get it off my chest, and I now turn to my ranking member, Senator Murray.

[The statement follows:]

PREPARED STATEMENT OF SENATOR CHRISTOPHER S. BOND

The Senate Appropriations Subcommittee on Transportation, Treasury, the Judiciary, HUD and Related Agencies will come to order. We welcome Secretary Alphonso Jackson for appearing before us today to testify on the Department of Housing and Urban Development's fiscal year 2006 budget request. Last year we did not have the benefit of a complete statement from you, having been newly confirmed as Secretary the night before the hearing. This year I especially look forward to your comments after a year on the job.

The administration's budget request for HUD for fiscal year 2006 proposes some \$28.5 billion, a decrease of some \$3.38 billion, or almost 11 percent, from the fiscal year 2005 funding level of \$31.9 billion. Unfortunately, the overall fiscal year 2006 funding level does not accurately reflect the actual requested overall spending for HUD's many programs. Instead, the overall budget numbers are distorted through a budget rescission request of \$2.5 billion as well as by how FHA receipts are treated for purposes of the fiscal year 2006 budget. In fact, the overall funding for HUD programs is far worse than the administration has indicated.

Proposed reductions to individual HUD programs include, among others, some \$4.67 billion from CDBG funding, \$118 million from Housing for Persons with Disabilities, \$14 million from Housing for Persons with AIDS, \$24 million from Rural Housing and Economic Development, \$24 million from Brownfields, almost \$286 million from HOPE VI, \$226 million from Section 8 Project-Based Assistance, and \$252 million from the Public Housing Capital Fund. I also am especially troubled by a proposed \$2.5 billion rescission for which neither HUD nor OMB has been able or willing to identify the source of funding.

These program cuts are even more disturbing because of proposed reductions and shortfalls in other programs within the jurisdiction of this subcommittee. Mr. Secretary, I know you have an obligation to defend the administration's budget and policy decisions no matter how problematic. I also understand and support the need for the administration to make difficult funding decisions in order to contain and reduce the Federal budget deficit. Unfortunately, I believe that the President has been getting some very bad advice about the housing and community development needs of the Nation.

The HUD budget as well as a number of newly proposed HUD legislative and policy initiatives reflect this bad advice. Unfortunately, these problems go beyond just HUD, leaving this subcommittee to confront huge challenges in trying to balance funding decisions among the many programs and priorities within the entire TTHUD fiscal year 2006 Appropriations bill in an extraordinary tight funding year.

As always, HUD represents one of the largest challenges. Unfortunately, the administration's overall budget for domestic discretionary spending will make reversing many of these administration recommendations impossible or compel the Congress to eliminate funding from other important and necessary programs.

To start with the good news, Mr. Secretary, I applaud you for fighting the good fight in attempting to preserve section 8 tenant-based vouchers at a level that will sustain current voucher use. And while I am disappointed over the public housing capital and operating fund levels, I know you also staved off much larger reductions, as proposed by OMB. In addition, home ownership is at its highest level in history with some 73.7 million homeowners. I also applaud your efforts to stem the abuses of predatory lending by banning flipping, increasing home ownership counseling and putting in place more stringent appraisal requirements. Unfortunately, this is the good news but the list is much too short for an agency as important as HUD.

Now for the bad news. First, I am very disappointed that the administration has proposed to dismantle the CDBG program along with some 17 or more other programs and replace these programs with a new block grant in the Department of Commerce called the Strengthening America's Communities initiative. The administration also is proposing to fund this initiative at \$3.7 billion which is an overall reduction for all these programs from the fiscal year 2005 level of almost \$2 billion or 34 percent.

The proposed elimination of CDBG is a tragedy, but the reduction in funding makes this proposal a double tragedy. Communities across the Nation rely on CDBG to fund critical housing and community development programs. Without these funds, many local programs will falter and even fail. Equally important, CDBG is a critical component of HUD's mission; CDBG helps to make HUD's housing mission successful. Moreover, the use of CDBG consolidated plans helps to ensure that communities tie together CDBG, housing funds and other Federal and State resources into a comprehensive approach to local housing and community development needs. Without CDBG, HUD's mission will be reduced to almost solely housing. As history tells us, successful community development relies on a comprehensive approach to housing and community development. Without CDBG, HUD will be like a one-armed pitcher trying to field a bunt.

I know CDBG has problems; CDBG funds are not always used well or effectively. Even Kansas City, Missouri, with a vibrant and progressive nonprofit community, recently identified some significant abuses within its CDBG program. However, these problems are being addressed and resolved. The key is to fix problems in good programs, not dismantle the programs.

Moreover, recently, HUD, OMB and certain interested parties recently ratified a consensus document to address weaknesses in the CDBG program by creating an Outcome Measurement System to establish new benchmarks and better oversight. Since this document addresses many of OMB's concerns, I am puzzled by the administration's efforts to dismantle a program that has been redesigned to become more effective and successful according to administration requirements.

I also am very concerned over the administration's approach to public housing. The administration is seeking to eliminate HOPE VI as well as rescind the HOPE VI fiscal year 2005 funding of \$143 million. As an alternative, the administration has issued a proposed regulation that will authorize PHAs to demolish the remaining obsolete public housing.

As you may know, I set the stage for HOPE VI by including a demonstration project in the 1990 National Affordable Housing Act that allowed the demolition and replacement of Pruitt-Igoe Public Housing in St. Louis with vouchers and new housing. Before this demonstration, PHAs could not be demolished without a one-for-one hard unit replacement. Because of the cost of this policy, the public housing program dictated the warehousing of the poor in obsolete and deteriorating PHA high-rises. HOPE VI allowed for the demolition of this obsolete housing and the creation of mixed income private and public housing that anchored private investment and the revitalization of entire communities.

While HOPE VI is not a perfect solution to all the woes of obsolete public housing, it has transformed many PHAs and communities, including many in Missouri, by replacing obsolete public housing with mixed income public and private housing. In many cases, HOPE VI housing has leveraged new investment in these communities. This means new businesses, an increased tax base, better schools and safer communities. It is unfortunate that the budget rules do not recognize these very tangible economic and social benefits.

The administration also has broken a promise to develop a new operating fund formula by negotiated rulemaking. Over the last 5 or more years, HUD has worked with PHAs through negotiated rulemaking to develop a new budget-based operating plan formula to ensure a more equitable system of allocating operating subsidies to

PHAs. Millions of dollars have been spent on this process. Nevertheless, a negotiated rule went into OMB's rulemaking review process and came out a much different flavor of sausage. One expects OMB to make changes to regulations under review; one does not expect wholesale revisions in violation of legislation that required negotiated rulemaking. I have not yet had an opportunity to review the rule. But to highlight my concerns, I am advised that, under the negotiated rule, 62 Missouri PHAs would have gained operating subsidies while 41 PHAs would have lost subsidies. Instead, under the OMB's changes, only 13 Missouri agencies would gain while 91 would lose funding. There is something wrong here. Equally troubling, HUD's fiscal year 2006 budget request includes a \$252 million reduction in the Public Housing Capital Fund despite an estimated \$20 billion backlog in modernization needs.

HUD also is proposing new legislation to block grant both section 8 voucher assistance and homeless funding. I have not yet seen the proposal to block grant homeless assistance funding but I support the approach assuming it is adequately funded and includes meaningful oversight.

I have seen the section 8 voucher block grant proposal. Once again, the proposal fails on a number of levels. First, the proposal fails to allow jurisdictions with real flexibility to use these funds for project-based assistance even in areas of the Nation where vouchers do not work because of tight rental markets. This means the administration only wants to provide flexibility on its own terms.

More disturbing, the section 8 proposal would eliminate the requirement that 75 percent of all vouchers go to extremely low-income families—those at or below 30 percent of median income. This is a critical requirement that ensures those with the worst case housing needs receive priority in the award of scarce section 8 housing assistance. Without this requirement, the number of homeless will continue to grow without real housing alternatives. This runs counter to the administration's promise to end chronic homelessness within 10 years.

Finally, I am very troubled by the proposed FHA Zero Downpayment Homeownership program. As with last year, this proposal continues to pose substantial financial risks over time to the FHA Single Family Mortgage Insurance program and the Mutual Mortgage Insurance Fund—without downpayments, new homebuyers will have no stake in their new homes and will have limited ability to pay for any substantial repairs such as a failed furnace or leaky roof.

As we discussed last year, FHA was close to bankruptcy in the late 1980's due to defaults from assisting families to purchase homes with high loan-to-value-ratios. These houses were often in marginal neighborhoods, and once these homeowners defaulted, the housing would often remain unsold and, thus, help drive down housing values throughout a neighborhood. Some of these neighborhoods are still trying to recover from those foreclosures, and the families in default often ruined their credit.

According to the HUD IG's audit of the FHA's financial statements for fiscal years 2004 and 2003, the FHA mortgage insurance program continues to suffer increasing default rates and claims. Over the last 5 years, defaults have increased from 2.99 percent in fiscal year 2000 to 6.9 percent in fiscal year 2004. Moreover, claims have risen from some \$5.5 billion in fiscal year 2000 to some \$8.5 billion in fiscal year 2004, a 54 percent increase while insurance-in-force has decreased 13 percent to \$430 million during the same period. Clearly, FHA has effectively become the lender of last resort, taking on the most risky mortgages with the greatest risk of default. A new zero downpayment program will only enhance this risk.

I have been working on housing and community development issues for most of my career from the governor's office in Missouri to my current position on the Appropriations Committee in the Senate. Unfortunately, despite my continuing efforts to reform HUD and support housing and community development initiatives, the Department of Housing and Urban Development remains in decline, characterized by failed programs and policies. I still believe that this trajectory of failure can be stopped, but I am dismayed by the lack of progress.

Mr. Secretary, I know that you face an uphill battle with an administration that seems to have little interest or commitment to HUD's programs and instead seems committed to dismantling the modest successes that HUD has achieved. I do not understand—when housing and community development investments work well, everyone benefits, jobs are created, taxes are collected, and schools and communities improve. Where we fail to create the right programs or fail to invest in these programs, neighborhoods deteriorate and the quality of peoples' lives suffer. It is that simple.

I am not looking for big increases in HUD programs. I do, however, believe that we need to preserve existing programs and try to build on these modest successes where possible. We may not agree on everything, but I know you believe in the importance of HUD's mission and the need for HUD to be a leader and partner in

housing and community development initiatives throughout the Nation. I look forward to continuing to work with you on making the Department a strong leader and partner. However, we need to revitalize and rebuild the public's confidence in HUD, and I look forward to hearing your vision for the Department's future.

Thank you. I turn now to my Ranking Member, Senator Murray.

STATEMENT OF SENATOR TED STEVENS

Senator STEVENS. Mr. Chairman and Senator Murray, I have to Chair the Commerce Committee markup, but would you permit me just 3 minutes.

Senator BOND. Senator Stevens.

Senator STEVENS. I am here to ask you to meet me in Alaska this year before this bill is marked up, before this bill is reported to the floor.

IHBG FUNDING IN ALASKA

There have been developments in your Department that affect our State that are staggering. Our field office is down in Stockton, California. Your Department has recognized now what I call rogue villages and taken away from a regional housing authority the jurisdiction over housing and given it to—in one instance to a group that calls themselves a village, but their traditional village is 200 miles from where they say they have the right to conduct housing.

And they have taken some 55 villages away from the existing housing authority and turned it over to this rogue group and they are not building housing. They are just employing their own people.

What is going up our way now is just staggering as far as the activities of your Department. And if we cannot get together on some understanding of what is going to happen, I am going to offer a series of amendments to this bill to mandate that these practices be changed.

We cannot exist this way. Your people, who never come to Alaska, sit down in the field office in California and decide what is right in Alaska. Now, that just cannot go on.

The relationships with the State are so strained that the people down there reduced the housing allowance for operations in Alaska, the highest in the Nation, a 53 percent cut in Alaska compared to an average 20 percent throughout the country.

Now, we have some people who are really in need for housing in the villages. But people sitting down in California, I do not know what they are doing down there. But these decisions are—I did not know it till just recently, and they are staggering.

PREPARED STATEMENT

I would urge you to come up and let us go out and look at these things and you meet the people that claim to be—that have the right to build these houses in an area they never lived in, they do not represent, and the people in the area oppose them. That is other than a few people that are off the reservation, so to speak.

But I do think this has to be changed. And I ask that my statement appear in the record. I appreciate your courtesy.

[The statement follows:]

PREPARED STATEMENT OF SENATOR TED STEVENS

Good morning Secretary Jackson—I am pleased to see you here this morning.

I must leave this hearing shortly to chair a markup session of the Commerce Committee, but I would like to ask for your help on some matters within your agency that are causing problems for us in Alaska.

The first is the matter of how HUD allocates its Indian Housing Block Grant funding. Within the State of Alaska, we now have some 231 federally-recognized "tribes," some with no or only a few members. This was a policy promulgated by the previous administration and is one with which I do not agree. In Alaska, our Native housing programs were traditionally operated by regional Native housing organizations which were large enough to bring economies of scale to housing programs across our vast State. Since the passage of the Native American Housing and Self Determination Act in 1996, and especially since the 2000 census, HUD has been moving to transfer some of this funding away from regional housing authorities and put it into the hands of small villages and "tribes" in Alaska. The most egregious example of this misguided policy has occurred in the Cook Inlet Region, which includes Anchorage. The Cook Inlet Housing Authority has been stripped of a substantial portion of its Indian housing funds. Those funds have been awarded to a so-called tribe called Kanatak to cover the entire Mat-Su Valley part of the Cook Inlet region. However, Kanatak's traditional lands are located hundreds of miles away on the Western coast of Alaska, and have not been occupied since 1956. As a result, the Cook Inlet Housing Authority's funding now covers only 8 communities in the region, down from the 55 communities it has traditionally covered and should be covering right now.

I hope you will agree to help resolve this situation in the near future—it is making it very difficult to provide economical housing for our Alaska Native population.

On another matter, I have heard from our Alaska Housing Finance Authority that your department is proposing to cut the operating subsidy it receives to operate public housing across Alaska by 53 percent the largest cut proposed for any housing authority in the Nation. I also understand that changes in the operating subsidies—the so-called "Allowable Expense Levels" are being proposed as a result of a study done by Harvard University. However, that study did not examine the particular conditions in Alaska, but still proposed a cut almost twice as large as the next largest cut. The AHFC has told my staff that they will not be able to continue to operate public housing in Alaska if a cut of this magnitude is allowed to go forward.

I believe a number of these problems stem from the Department's senior management not being familiar with Alaska. We used to have a HUD Field Office in Alaska, but that was closed about 10 years ago, and now our field office is located in Santa Ana, California—a place that has little in common with Alaska. I hope you will give some consideration to establishing more of a presence in my State, which covers an area one-fifth the size of the entire lower 48.

Mr. Secretary, I invite you to bring your senior staff and come to Alaska to see for yourself what our housing problems look like and how they differ from those in most lower-48 communities. I hope you will do that and will work with me to solve these and other problems.

Senator BOND. Thank you, Senator Stevens.

And, Mr. Secretary, you have only been in this position about a year, but I would suggest to you that those suggestions are ones which you should adopt.

I will explain to you later if you have any questions.

Now I turn to Senator Murray.

STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. Well, thank you very much, Mr. Chairman, and I will join with you welcoming Secretary Jackson to our subcommittee this morning.

Mr. Secretary, you have had a distinguished career serving in the public housing field in Dallas, St. Louis, and Washington, DC. Your expertise and your commitment are needed as families throughout our country are really struggling with the high cost of housing.

Unfortunately, Mr. Secretary, you have been handed a very difficult budget to defend. I have always said that a budget is a statement of priorities. In looking at this budget, it is hard to reach any

other conclusion than that housing is not a priority for this administration.

And we are not just talking about numbers. The cuts and problems in this budget will affect the lives of some of our most vulnerable neighbors.

I wish the Bush Administration valued them more and was willing to give us a budget that does make housing a priority. But sadly this appears to not be the case.

So we will do our best with the budget the administration has sent us. But I do want to note that the situation is actually worse than some of the figures we are going to be hearing today.

In looking at the budget before us, some might see a 12 percent cut from last year. But when you take a closer look at the numbers, you see the cuts are actually closer to 20 percent. And that is because this budget calls for a large number of rescissions, \$2.65 billion.

I know last year before HUD came under the jurisdiction of our subcommittee, the administration sought approval to cut about \$1.5 billion that were appropriated but never spent. Now the administration wants to go into the current year's budget and cut an additional \$2.65 billion.

So when you add in the rescissions on top of the regular budget cuts, the size of the administration's proposed cuts to HUD grows to almost \$6.5 billion or a 20 percent cut from last year.

That is a very dark picture for American families and for cities and for communities that are really trying to help and develop distressed areas.

As I look at these rescissions, what I see is troubling. But what I do not see is even more troubling. I do not see a detailed explanation specifying where \$2.5 billion of the proposed rescission is coming from.

It is like the administration is asking us for a sledgehammer and then telling us not to worry about where they are going to use it. Well, I want you to know I am worried.

Under these proposed rescissions, HUD is granted the blanket authority to take away the funding from any program in the agency. That means that additional cuts can come from programs serving the homeless or the disabled or individuals living with HIV and AIDS. They can eliminate housing vouchers for the working poor or cut back on locally based Meals on Wheels programs.

All that is in addition to the administration's proposal to eliminate the Community Development Block Grant Program and the variety of support programs and services it funds.

So the administration is saying not only are we going to cut funding for HUD programs, but we are asking to open up a previous appropriations act and cut another \$2.5 billion however we see fit. That could have a very painful impact on many of our neighbors.

HOPE VI

The only part of the rescission that the administration has provided any information about concerns the HOPE VI program. So let us look at what the administration proposes.

The HOPE VI program has the worthy goal of tearing down old, dilapidated public housing units and replacing them with affordable housing units for mixed-income populations. The President plans to eliminate that program for next year.

But it gets worse. The administration also wants us to go back and rescind the \$143 million that we already appropriated for this program for this current year.

So it is not enough just to kill it for next year, they want us to gut it this year and undo Congress' work of the past year. Together these proposals represent the elimination of some \$300 million in HOPE VI grants.

This idea of unaccountable, undefined, blanket rescissions really concerns me deeply, Mr. Chairman. I have served on the Appropriations Committee for the great majority of my almost 13 years in the Senate and I believe we have a responsibility when we appropriate taxpayer dollars to know where they are going.

And by the same measure, when we are asked to take funds away from agencies that have already received them, I want to know precisely what projects or grants or services that we already funded will now be cut.

So I hope to use a portion of the hearing this morning to get a clear and precise answer from Secretary Jackson as to the likely impacts of this budget proposal and what will result if he is required to cancel more than \$4 billion in funding already appropriated to his agency over the course of this year and next.

The challenges that are facing the Department of Housing and Urban Development are daunting and the administration's proposed budget cuts make it even worse.

PREPARED STATEMENT

I cannot make the administration treat housing like a priority, but I can do everything possible to make sure we do not make things worse. I want to give the Secretary the resources he needs to protect and expand housing opportunities for the poor and community development programs for local communities.

Thank you, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATTY MURRAY

Thank you, Mr. Chairman.

I want to welcome Secretary Jackson to the subcommittee this morning.

Mr. Secretary—you have had a distinguished career serving in the public housing field in Dallas, St. Louis, and Washington, DC.

Your expertise and your commitment are needed as families throughout the country struggle with the high cost of housing.

Unfortunately, Mr. Secretary, you've been handed a very difficult budget to defend.

I've always said that a budget is a statement of priorities, and looking at this budget it's hard to reach any other conclusion than that housing is not a priority for this administration.

And we're not just talking about numbers. The cuts and problems in this budget will affect the lives of some of our most vulnerable neighbors.

I wish the Bush Administration valued them more—and was willing to give us a budget that makes housing a priority.

But sadly that is not the case, so we will do our best with the budget the administration has sent us.

But I do want to note that the situation is actually worse than some of the figures we'll hear today.

In looking at the budget before us, some might see a 12 percent cut from last year.

But when you take a closer look at the numbers—you see that the cuts are actually closer to 20 percent.

That's because this budget calls for large number of rescissions—\$2.65 billion.

I know that last year—before HUD came under the jurisdiction of this subcommittee—the administration sought approval to cut about \$1.5 billion dollars that were appropriated but never spent.

Now the administration wants to go into the current year's budget and cut an additional \$2.65 billion.

So when you add in these rescissions—on top of the regular budget cuts—the size of the administration's proposed cuts to HUD grows to almost \$6.5 billion, or a 20 percent cut from last year.

That is a very dark picture for American families and for cities and communities that are trying to develop distressed areas.

As I look at these rescissions, what I see is troubling—but what I don't see is even more troubling.

I don't see a detailed explanation specifying where \$2.5 billion of the proposed rescission is coming from.

It's like the administration is asking us for a sledgehammer and then telling us not to worry about how they'll use it. Well I am worried.

Under these proposed rescissions, HUD is granted the blanket authority to take the funding from any program in the agency.

That means additional cuts can come from programs serving the homeless, the disabled, or individuals living with HIV/AIDS.

They can eliminate housing vouchers for the working poor or cut back on locally-based meals-on-wheels programs.

All that is in addition to the administration's proposal to eliminate the Community Development Block Grant program and the variety of support programs and services it funds.

So the administration is saying not only are we going to cut funding for HUD Programs, but we're asking to open up a previous appropriations act and cut another \$2.5 billion however we see fit.

That could have a painful impact on many of our neighbors.

The only part of the rescission that the administration has provided any information about concerns the HOPE VI program—so let's take a look at what the administration proposes.

The HOPE VI program has the worthy goal of tearing down old, dilapidated public housing units and replacing them with affordable housing units for mixed income populations.

The President plans to eliminate this program next year.

But it gets worse.

The administration also wants us to go back and rescind the \$143 million that we already appropriated for this program for the current year.

So it's not enough to kill it next year—they want to gut it this year and undo Congress's work in this area.

Together, these proposals represent the elimination of some \$300 million in HOPE VI grants.

This idea of unaccountable, undefined blanket rescissions concerns me deeply.

I have served on the Appropriations Committee for the great majority of my almost 13 years in the Senate.

I believe we have responsibility when we appropriate taxpayer dollars to know where they are going.

By the same measure, when we are asked to take funds away from agencies that have already received them, I want to know precisely what projects, grants or services—that we already funded—will now be cut.

So, I hope to use a portion of our hearing this morning to get clear and precise answers from Secretary Jackson as to the likely impacts of this budget proposal and what will result if he is required to cancel more than \$4 billion in funding already appropriated to his agency over the course of this year and next.

The challenges facing the Department of Housing and Urban Development are daunting. And the administration's proposed budget cuts make it even worse.

I can't make the administration treat housing like a priority, but I can do everything possible to make sure we don't make things worse.

I want to give the Secretary the resources he needs to protect and expand housing opportunities for the poor and community development programs for local communities.

Thank you, Mr. Chairman.

Senator BOND. Thank you very much, Senator Murray. Senators Durbin and Leahy have submitted written statements which will also be made a part of the record.

[The statements follow:]

PREPARED STATEMENT OF SENATOR RICHARD J. DURBIN

Mr. Jackson, thank you for testifying before this subcommittee today. I am very concerned about the housing cuts that have been proposed for HUD. These cuts could severely hinder HUD's ability to address community development needs in cities, towns, and communities across the country. They jeopardize housing for low-income individuals, families, the elderly, and the disabled.

I remain troubled about the President's proposal to eliminate the Community Development Block Grant (CDBG) program and replace it with a new initiative within the Department of Commerce. CDBG has supported State and local governments' community development and neighborhood revitalization activities for over 30 years. It has provided more than just economic opportunities. The funds have been used to conserve and expand affordable housing, improve access to public water and sewer facilities, create jobs, and improve lives. These are the building blocks for our neighborhoods.

Communities across Illinois, like Pekin, a town with approximately 34,000 people, or Cooksville, a village with slightly over 200 people, received CDBG funds for revitalization efforts. In Chicago, a community group received a CDBG grant to start a "Safe Passages" program—a shuttle service for children in the neighborhood tutoring program. It provided students with free transportation—a safe passage—from tutoring programs, through some of the toughest gang territories in Chicago, to a Boys and Girls Club where the children can swim, play sports, and eat a snack or a meal. Before "Safe Passages" and the CDBG grant, kids in this neighborhood stayed home after school or hung out on the corner and were recruited by gangs. Today, they have a way out.

I am also concerned about the President's request for \$268 million for the Housing for Persons with AIDS (HOPWA) program, a cut in funding from the \$282 million appropriated last year. Of the 15,000 people in Chicago who may be homeless on any given night, 8 percent have HIV. Nationwide, the Centers for Disease Control estimates that there are 886,575 people living with HIV/AIDS, and approximately 50 percent need some form of housing assistance. HOPWA provides this vital assistance and creates access to medical care and support services. In 2005, HOPWA provided support for 122 jurisdictions eligible for formula allocations. HUD announced that two additional jurisdictions will be eligible for funds in 2006, but overall funding for the program continues to decrease. Senator Martinez and I are currently circulating a letter that will be sent to this committee urging \$385 million for fiscal year 2006. I hope this committee will take the request into consideration.

I have concerns about several other programs that are slated for cuts. For instance, this is the third consecutive year that the President has proposed eliminating HOPE VI. This funding has been crucial for several Illinois communities.

In fiscal year 2002, the Winnebago County Housing Authority received a HOPE VI revitalization grant for \$18.8 million. The funding was granted to demolish Champion Park Apartments, 61 subsidized low-rise apartments, and replace them over the next 2 years with 156 homes throughout the neighborhood.

I was pleased to see an increase in the President's budget for Homeless Assistance Grants. Last year, 20 of my colleagues and I sent a letter to this committee urging funding for renewals of expiring grants to permanent supportive housing serving the homeless. Although our request was not granted, the committee and the administration have acknowledged the importance of permanent supportive housing in the fight against chronic homelessness.

If the administration is going to continue to live up to its commitment to end chronic homelessness, we must also ensure that the proper infrastructure is in place. The Housing Choice Voucher Program has been a large part of that infrastructure. But, with formula changes and funding shortfalls, the wait lists are growing and families with vouchers are being told that they are losing their assistance. We must ensure that funding for vouchers is made available so that those in need of subsidized housing don't add to the number of people on the streets.

Finally, Mr. Jackson, you have spoken about home ownership as part of the President's vision of an "ownership society"—that it "is the key to financial independence, the accumulation of wealth, and, stronger, healthier communities." I agree that home ownership is often a key to achieving the American dream. However, in light of the proposed HUD budget cuts, we must not lose sight of those who will be left

alone—those who cannot achieve home ownership. We must continue to focus attention and funding on community development and on increasing our supply of decent, safe and affordable housing for all.

I appreciate the opportunity to speak with you today. I look forward to hearing your testimony.

PREPARED STATEMENT OF SENATOR PATRICK J. LEAHY

Secretary Jackson, I would like to welcome you today in your first appearance before our newly reconstituted and renamed subcommittee. It's a new name, but I think you will see some familiar faces. Mr. Secretary, Senator Bond and Senator Murray—I look forward to working with you all as we tackle this new bill in the upcoming fiscal year.

This is my first hearing as a member of the subcommittee and I have to say that I wish it could start on a more positive note. Unfortunately the President's proposed budget for the work of your department is one that again invites disappointment and even incredulity, not praise.

For the fifth year in a row the President has sent up a budget that ratchets down affordable housing among our budget priorities, and that would increase, not lessen, the burden put on the shoulders of our Nation's struggling low-income families.

The budget before us signals a substantial retreat in our commitment to help provide access to safe and affordable housing for all Americans. The public housing operating fund has been reduced by 10 percent, funds for housing for persons with disabilities have been cut in half, HOME formula grants have been reduced, fair housing programs have been slashed and lead-based paint grants have been cut.

Most egregious is the complete elimination of the Community Development Block Grant program—a proposal that has been met with what can be mildly described as skepticism by most members for the United States Senate. When all is said and done, the HUD budget is reduced by 12 percent. One of the few programs to see an increase in this budget proposal is the Section 8 program, and even that increase will only be enough to restore half of the cuts that were made this year as a result of inadequate funding in fiscal year 2005.

If a budget is a reflection of priorities, and of course it is, the message being sent here is that the people who struggle in our society and who need the helping hands offered by these programs to put decent shelter over their heads do not matter. Our Nation's core affordable housing and community development programs are being chipped away, year after year. I hope to hear from you today about the vision you have for the Department of Housing and Urban Development and how you expect to run efficient and effective programs like these, when they are slowly being starved to death.

Senator BOND. And now, Secretary Jackson, we welcome your statement. The full statement will be made a part of the record as always and we would appreciate your advising us orally of the things that you think should be especially highlighted.

STATEMENT OF ALPHONSO JACKSON

Mr. JACKSON. Thank you. Chairman Bond, Ranking Member Murray, and distinguished members of the subcommittee, thank you for inviting me here this morning.

And I am honored to outline the 2006 budget proposed by President Bush for the United States Department of Housing and Urban Development. And I appreciate you letting me submit the whole record to the committee.

HOME OWNERSHIP

Over the past 4 years, HUD has expanded home ownership, increased access to affordable housing, fought housing discrimination, tackled homelessness, and renewed its commitment to those most in need.

HUD's \$28.5 billion budget for 2006 seeks to build on our success and lend a compassionate hand to individuals in need, while also using taxpayers' money more wisely.

In June 2002, President Bush challenged the Nation to create 5.5 million new minority homeowners. In 2004, more Americans achieved the dream of home ownership than at any other time in our Nation's history. Today, nearly 70 percent of all American families own their homes, an all-time record.

Since the President challenged us in August of 2002, 2.2 million more minority families have become homeowners. This represents about 40 percent of the goal. As a result, for the first time in the history of minority home ownership, it is over 51 percent.

Despite this progress, we have a long ways to go. For many families, high down payment and closing costs represents the greatest barrier of home ownership.

Since President Bush signed the American Dream Downpayment Act into law in December of 2003, HUD has distributed \$162 million in funds to over 400 State and local governments.

These funds have already helped thousands of families purchase their first home and more than 50 percent of the buyers were minorities.

The 2006 budget requests \$200 million to fully fund the program and help an estimated 40,000 homeowners. The budget also proposed \$40 million for housing counseling to assist some 700,000 families to become homeowners.

SECTION 8 REFORM

The fiscal year 2006 budget will make government a better steward of the taxpayers' money. Reform of the Section 8 Housing Choice Voucher Program is important.

In fiscal year 2001, HUD's three Section 8 programs consumed 43 percent of the annual budget. That percentage has increased to 57 percent in 2005.

The rate of increase combined with the extreme complex set of laws and regulations has resulted in a program that is difficult to sustain.

In the past, funds were distributed to the public housing authority for a specific number of vouchers based upon the number of units leased. Congress recently converted the unit-based allocation system to a budget-based system.

However, for the budget-based system to work, program requirements must be simplified and PHAs must have greater decision-making flexibility.

Chairman Allard, who is on the Appropriations Committee, has introduced and authorized legislation to implement the Section 8 reform. Section 8 programs will fill an important component of HUD's mission and I am committed to it and its success.

HOMELESSNESS

Throughout the budget, we will strengthen the assistance to the most needy. That is children from low-income families, the elderly, those physically and mentally disabled, victims of predatory lending, and families living in housing contaminated by lead-based paint.

The administration is committed to ending homelessness and has aggressively pursued the policy to move more homeless families and individuals to permanent housing.

The budget provides a record-level resource of permanent and supported housing for the homeless. This budget provides \$1.4 billion for homeless assistance grants. Twenty-five million will go to the present Re-entry Initiative.

The budget also proposes \$39 million in funds for HUD's Fair Housing Programs to ensure that everyone has access to suitable living conditions, and a suitable living environment that is free from unlawful discrimination.

All of us share the goal of creating housing opportunities for America. And we have done a great job in the past 4 years. We should be proud of a lot of the things that we have done, but we should not be satisfied because there is an awful lot to be done.

I look forward to the challenges ahead and will seek the open communications to new home ownership, affordable housing opportunities, economic growth, and prosperity.

PREPARED STATEMENT

I would like to thank you, Mr. Chairman, and the ranking member of the subcommittee for your support and for your continued support in the future. And I will look forward to your guidance.

[The statement follows:]

PREPARED STATEMENT OF ALPHONSO JACKSON

Chairman Bond, Ranking Member Murray, distinguished members of the subcommittee, thank you for the invitation to join you this morning. I am honored to outline the fiscal year 2006 budget proposed by President Bush for the U.S. Department of Housing and Urban Development (HUD).

Over the past 4 years, HUD has expanded home ownership, increased access to affordable housing, fought housing discrimination, tackled homelessness, and made a new commitment to serving society's most vulnerable. The Department has implemented innovative solutions to address our Nation's housing needs, and our results have been impressive and measurable.

HUD's \$28.5 billion in new net budget authority for fiscal year 2006 seeks to build on our success and lend a compassionate hand to individuals in need, while also using taxpayer money more wisely and reforming programs in need of repair. The HUD budget proposed by the President reflects this intent through three broad, yet focused strategic goals: promoting economic opportunity and ownership, serving society's most vulnerable, and making government more effective.

In his February 2 State of the Union Address, the President underscored the need to restrain spending in order to sustain our economic prosperity. As part of this restraint, it is important that total discretionary and non-security spending be held to levels proposed in the fiscal year 2006 budget. The budget savings and reforms in the budget are important components of achieving the President's goal of cutting the budget deficit in half by 2009 and we urge the Congress to support these reforms. The fiscal year 2006 budget includes more than 150 reductions, reforms, and terminations in non-defense discretionary programs, of which eight affect HUD programs. The Department wants to work with the Congress to achieve these savings.

The funding reductions, reforms, and terminations contained within HUD's fiscal year 2006 budget represent difficult choices in an era of significantly diminished resources for all domestic discretionary programs. These decisions were made thoughtfully, following an analysis of each program's current funding levels and an assessment of future needs.

PROMOTING ECONOMIC OPPORTUNITY AND OWNERSHIP

The President's vision of an "ownership society" has been a central theme of his administration. Ownership—and home ownership in particular—is the key to financial independence, the accumulation of wealth, and stronger, healthier communities.

Home ownership creates community stakeholders who tend to be active in charities, churches, and neighborhood activities. Home ownership inspires civic responsibility, and homeowners are more likely to vote and get involved with local issues. Home ownership offers children a stable living environment, and it influences their personal development in many positive, measurable ways—at home and at school.

Home ownership's potential to create wealth is impressive, too. For the vast majority of families, the purchase of a home represents the path to prosperity. A home is the largest purchase most Americans will ever make—a tangible asset that builds equity, good credit, borrowing power, and overall wealth.

In 2004, more Americans achieved the dream of home ownership than at any time in our Nation's history. Today, nearly 70 percent of American families own their homes—an all-time record—and minority home ownership has surpassed 51 percent for the first time in history.

That figure, however, points to a significant home ownership gap between non-Hispanic whites and minorities. In June 2002, the President challenged the Nation to create 5.5 million new minority homeowners by 2010. Since the President's challenge, 2.2 million minority families have joined the ranks of homeowners, and we are on track to meet the 5.5 million goal.

The administration is working to make home ownership more affordable and more accessible. Government should do everything it can to help families find the security, dignity, and independence that come with owning a piece of the American Dream.

For many Americans, high downpayments and closing costs represent the greatest barrier to home ownership. To help overcome this obstacle, the President proposed the American Dream Downpayment Initiative to provide low- and moderate-income families with the funds and support needed to purchase their first home. On December 16, 2003, President Bush signed the American Dream Downpayment Initiative into law, and since then, HUD has distributed \$162 million in downpayment funds to over 400 State and local governments. These funds have already helped over 3,500 families purchase their first homes—of which more than 50 percent were minorities. The 2006 budget requests \$200 million to fully fund the Initiative.

Helping families learn about the loan products and services available to them and how to identify and avoid predatory lending practices is critical to increasing home ownership. Housing counseling has proven to be an extremely important element in both the purchase of a home and in helping homeowners keep their homes in times of financial stress. The fiscal year 2006 budget proposes \$40 million for Housing Counseling to assist over 700,000 families to become homeowners or avoid foreclosing on their homes. This effort will fully utilize faith-based and community organizations.

To remove two of the largest barriers to home ownership—high downpayment costs and impaired credit—the budget proposes two mortgage programs. The Zero Downpayment Mortgage allows first-time buyers with a strong credit record to finance 100 percent of the home purchase price and closing costs. For borrowers with limited or weak credit histories, a second program, Payment Incentives, initially charges a higher insurance premium and reduces premiums after a period of on-time payments. In 2006, these new mortgage programs will assist more than 250,000 families achieve home ownership.

The President is also proposing a new Single Family Homeownership Tax Credit that could increase the supply of single-family affordable homes by an additional 50,000 homes annually. Under the President's plan, builders of affordable homes for moderate-income purchasers will receive a tax credit. State housing finance agencies will award tax credits to single-family developments located in a census tract with median income equal to 80 percent or less of area median income and will be limited to homebuyers in the same income range. The credits may not exceed 50 percent of the cost of constructing a new home or rehabilitating an existing property. Each State would have a home ownership credit ceiling adjusted for inflation each year and equal to the greater of 1.75 times the State population or \$2 million. In total, the tax credit will provide \$2.5 billion over 5 years.

As you know, tax legislation is the responsibility of the Treasury Department, but we will be working with Treasury's Office of Tax Policy to ensure that the credit legislation addresses issues such as disclosures, so that the credit operates smoothly.

The Homeownership Voucher program, while still new, has successfully paved a path for low-income Americans to become homeowners. Together with pre- and post-home ownership counseling, strong and committed collaboration among Public Housing Authorities (PHAs), local non-profits, and lenders has proven to be essential in making the program work for families across the country. The greatest challenge to the success of the program is finding lenders who are willing to participate.

Government-sponsored enterprises were chartered to help low- and moderate-income families secure mortgages. HUD recently published a rule that requires Fannie Mae and Freddie Mac to increase their purchases of mortgages for low- and moderate-income households and underserved communities. These new goals will push the GSEs to genuinely lead the market in creating home ownership opportunities for those traditionally underserved by the mortgage markets, particularly first-time homebuyers.

In addition to increasing the housing goals annually from 2005 through 2008, HUD's rule establishes new home purchase subgoals in each of the three goal areas. This is intended to focus the GSEs' efforts on the purchase of home mortgages, not refinancings. HUD projects that over the next 4 years, GSEs will purchase an additional 400,000 home purchase loans that meet these new and more aggressive goals as a result of the new rule.

As the primary Federal agency responsible for the administration of fair housing laws, HUD is committed to protecting the housing rights of all Americans, regardless of race, color, national origin, religion, sex, familial status, or disability. This commitment is reflected in HUD's budget request for fiscal year 2006.

The goal of HUD's fair housing programs is to ensure that all families and individuals have access to a suitable living environment free from unlawful discrimination. HUD contributes to fair housing enforcement and education by directly enforcing the Federal fair housing laws and by funding State and local fair housing efforts through two programs: the Fair Housing Assistance Program (FHAP) and the Fair Housing Initiatives Program (FHIP).

The fiscal year 2006 budget will provide \$23 million through FHAP for State and local jurisdictions that administer laws substantially equivalent to the Federal Fair Housing Act. The budget also provides \$16 million in grant funds for non-profit FHIP agencies nationwide to directly target discrimination through education, outreach, and enforcement.

The fiscal year 2006 budget requests \$583 million to fund Native American Block Grants (NABG). These grants are used by tribes and tribally designated housing entities to develop new housing units to meet critical shortages in housing. Although NABG funding has been reduced in fiscal year 2006, HUD expects that all program requirements will be met, including new housing development, housing assistance to modernize and maintain existing units; housing services, including direct tenant rental subsidy; guaranteed lending; crime prevention; administration of the units; and certain model activities.

SERVING SOCIETY'S MOST VULNERABLE

Ending Chronic Homelessness.—The administration is committed to the goal of ending chronic homelessness, and has aggressively pursued policies to move more homeless families and individuals into permanent housing. A chronically homeless person suffers from a disabling developmental, physical, or mental condition or a substance abuse addiction. They have been homeless for a year or more, or they have had repeated periods of extended homelessness. They may occasionally get help and leave the streets, but they soon fall back to a life of sidewalks and shelters.

Research indicates that although just 10 percent of the homeless population experiences chronic homelessness, these individuals consume over half of all emergency homeless resources. Housing this population will free Federal, State, and local emergency resources for families and individuals who need shorter-term assistance.

In July 2002, the President reactivated the Interagency Council on Homelessness for the first time in 6 years, bringing together 20 Federal entities involved in combating homelessness. Since its inception, the Interagency Council has helped State and local leaders across America draft plans to move chronically homeless individuals into permanent supportive housing, and to prevent individuals from becoming chronically homeless. Today, 47 States and more than 200 county and city governments have joined the Federal effort.

The budget provides a record level of resources for permanent supportive housing for homeless individuals who have been on the streets or in shelters for long periods. The 2006 budget provides \$1.44 billion for Homeless Assistance Grants (\$25 million of which is for the Prisoner Re-Entry Initiative), \$200 million more than in 2005. Altogether, the administration requests \$4 billion in 2006 for Federal housing and social service programs for the homeless, an 8.5 percent increase.

Housing for Special Populations.—Housing Opportunities for Persons with AIDS (HOPWA) provides formula grants to States and localities to provide housing to ensure persons with AIDS can continue to receive health care and other needed support. The program also provides competitive grants to nonprofit organizations. In fiscal year 2006, HOPWA will fund an estimated 25 competitive grants and will pro-

vide formula funding to an estimated 124 jurisdictions and in total will provide an estimated 67,000 households with housing assistance.

The fiscal year 2006 HOPWA funding request represents a 5 percent decrease from the fiscal year 2005 funding level. The reduction was one of a number of difficult choices the administration made in formulating the fiscal year 2006 budget, but one which is in consistent with the goal of restraining spending in order to sustain economic prosperity. HUD is seeking changes in the HOPWA formula that will improve the targeting of the program, so that HOPWA better supports those whom it was created to serve—the most vulnerable persons, and individuals who are homeless or with very low incomes—ahead of other low-income households.

The fiscal year 2006 budget proposes to fund grants of \$119.9 million for Supportive Housing for Persons with Disabilities (Section 811). Section 811 provides assistance to expand the supply and the availability of affordable housing for persons with disabilities. The administration is proposing the elimination of the program's new construction component, resulting in a \$118.2 million funding decrease from fiscal year 2005. The Section 811 program will continue to support all previously funded housing subsidies under the program and up to 1,000 new housing vouchers. The administration intends to undertake a study of the Section 811 program to determine the most efficient use of the limited funding available for it.

HUD's Office of Lead Hazard Control and its Healthy Homes Initiative work to eradicate childhood lead poisoning and prevent other housing-related childhood diseases and injuries. The fiscal year 2006 budget proposes \$119 million to fund these two programs, a net decrease of \$47.6 million from the fiscal year 2005 appropriation. The Lead Demonstration Project accounts for \$46.6 million of this decrease. Areas with high incidence of lead poisoning have now developed greater capacity, and therefore activities previously funded under the Demonstration program will be addressed through the regular grant program.

MAKING GOVERNMENT MORE EFFECTIVE

Reforming Community and Economic Development Programs.—The budget proposes a new program within the Department of Commerce to support communities' efforts to meet the goals of improving their economic opportunity and ownership. This initiative will consolidate programs such as Community Development Block Grants into a more targeted, unified program that sets accountability standards in exchange for flexible use of the funds.

Reforming Low-Income Housing Assistance.—Another way in which the fiscal year 2006 budget will make government a better steward of taxpayer money is through reform of the Section 8 Housing Choice Voucher Program.

HUD has three major rental assistance programs that collectively provide rental subsidies to approximately 4.8 million households nationwide. The major vehicle for providing rental subsidies is the Section 8 program, which is authorized in Section 8 of the U.S. Housing Act of 1937. Under this program, HUD provides subsidies to individuals (tenant-based) who seek rental housing from qualified and approved owners, and also provides subsidies directly to private property owners who set aside some or all of their units for low-income families (project-based).

The Housing Choice Voucher Program, the best known of the Section 8 rental assistance programs, provides approximately 2 million low-income families with subsidies to afford decent rental housing in the private market. Generally, participants contribute up to 30 percent of their income towards rent, and the government pays the rest.

In the past, funds have been appropriated for a specific number of vouchers each year. These funds were then given to PHAs based on the number of vouchers they awarded and at whatever costs were incurred.

In 2001, the Housing Certificate Fund, under which both the project-based and tenant-based Section 8 programs are funded, consumed 43 percent of HUD's annual budget. That had risen to 57 percent in fiscal year 2005, and the trend line continues to increase dramatically in the Department's fiscal year 2006 budget. This rate of increase, combined with an extremely complex set of laws and rules that govern the program, has resulted in a program that increasingly is difficult to sustain.

In response to rapidly increasing costs, Congress recently converted this "unit-based" allocation system to a "budget-based" system. This made sense, but for the budget-based system to work, program requirements need to be simplified and PHAs need to be provided with greater flexibility.

The administration proposes to simplify Section 8 and give more flexibility to PHAs to administer the program to better address local needs. Building on changes in the 2005 Consolidated Appropriations Act, the administration will shortly submit authorizing legislation to this committee that expands the "dollar-based" approach.

PHAs will continue to receive a set dollar amount as in 2005, but they would have the freedom to adjust the program to the unique and changing needs of their communities, including the ability to set their own subsidy levels based on local market conditions rather than Washington-determined rents. Local PHAs will be able to design their own tenant rent policies, and in turn, reduce the number of errors that are made and create incentives to work. The administration's plan will eliminate many of the complex forms that are currently required to comply with program rules, saving both time and money. Furthermore, the administration's proposal will reward PHAs for good management through performance-based incentives. These changes would provide a more efficient and effective program, which helps low-income families more easily obtain decent, safe, and affordable housing.

Human Capital.—After many years of downsizing, HUD faces a large number of potential retirements and the loss of experienced staff. HUD's staff, or "human capital," is its most important asset in the delivery and oversight of the Department's mission. HUD has taken significant steps to enhance and better use its existing staff capacity, and to obtain, develop, and maintain the staff capacity necessary to adequately support HUD's future program delivery. HUD has revamped its hiring practices, and now fills jobs in an average of only 38 days, instead of the 96-day average originally cited by the Government Accountability Office. Moreover, HUD has synchronized the goals and performance plans of its managers with the overall aims of the agency, and is developing a new managerial framework through recent hiring and executive training programs.

Competitive Sourcing.—In April, HUD announced its first public-private competition, focusing on the contract administration and compliance monitoring functions associated with its assisted multifamily housing properties. Through this competition and others that are being considered, HUD hopes to realize cost efficiencies and significantly improve performance.

Improved Financial Performance.—HUD has striven to enhance and stabilize its existing financial management systems operating environment to better support the Department and produce auditable financial statements in a timely manner. While still suffering from internal control weaknesses, HUD met the accelerated time-tables for producing its performance and accountability report, and improved the reliability, accuracy, and timeliness of financial systems. HUD is continuing efforts to reduce its internal control weaknesses from 10 to 7 by next year.

E-Government.—HUD completed security reviews for all of its information systems in calendar year 2004, and plans are in place to eliminate security defects by next year. HUD awarded its large contract for core IT infrastructure, successfully resolving a protest that lasted for 2 years.

HUD Management and Performance.—Today, public and assisted housing residents live in better quality housing with fewer safety violations than 4 years ago. HUD increased the percentage of projects meeting its physical condition standards in public housing by 9 percentage points (from 83 percent in 2002 to 92 percent in 2004) and in subsidized private housing by 8 percentage points (from 87 percent in 2002 to 95 percent in 2004). HUD now turns around at least 45 percent of public housing authorities classified as "troubled" within 12 months rather than the 2 years allowed by regulation. New rules and procedures have virtually eliminated property flipping fraud from the FHA insurance programs, and close monitoring will continue to prevent such abuses. New rules and procedures have forced out bad appraisers from the FHA program and our "Credit Watch" lender monitoring initiative will continue to bar other individuals who improperly raise the risk of loss in these programs. Since 2002, HUD has worked with stakeholders to streamline their Consolidated Planning process into an easy-to-use and helpful tool for communities.

Faith-Based and Community Initiative.—HUD expanded its outreach to community organizations, including faith-based organizations, attempting to level the playing field for its formula and competitive grants. HUD has removed all discriminatory barriers to participation by such organizations. HUD's technical assistance has helped these organizations understand the application process as well as the responsibilities for implementation. These organizations are beginning to compete more widely and effectively as shown in their success in increasing the number of grants from 659 in 2002 to 765 in 2003, a 16 percent improvement.

Improper Payments Initiative.—At the beginning of the President's first term, HUD committed to working with its stakeholders to reduce the improper payment in rental subsidies by one-half by 2005. At that time, over 60 percent of rental subsidies were incorrectly calculated by program sponsors due to improper interviews, inadequate income verifications, misunderstood program rules, and computational errors. Other errors resulted from inadequate verification of tenants' self-reported incomes. Four years later, HUD has achieved exactly what it committed to do. There has been a 27 percent reduction in improper subsidy determinations by program

sponsors over the past 4 years. More importantly, there has been a 50 percent reduction in improper payments amounting to \$1.6 billion.

Beginning in 2005, HUD will expand the verification of tenant self-reported incomes to include recent wage data. This has the dual benefit of both improving accuracy and providing more privacy because income data will be matched electronically whereas current procedures require a paper verification letter to the tenant's employer. These stewardship efforts improve confidence that the right person is getting the right benefit in a timely, dignified, and private manner as intended under law. Because this is the first quarter that agency efforts were rated, progress scores were not given.

All of us share the goal of creating housing opportunities for more Americans. We have done great work over the past 4 years, and we should be proud of everything we have accomplished together. But we should not be satisfied, because our work is far from being finished.

I look forward to the work ahead, as we seek to open the American Dream to more families and individuals, and open our communities to new opportunities for growth and prosperity.

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

Thank you.

Senator BOND. Thank you very much, Mr. Secretary.

CDBG AUDIT OF PROGRAM ABUSE

Mr. Secretary, you are probably well aware, as we are all too well aware in Missouri, of a recent audit conducted for the City of Kansas City that revealed that a not-for-profit agency has billed for some \$1.1 million in Federal housing funds for just two homes on Tracy Avenue. The audit found the contracts may have violated Federal regulations.

As you know, there is great concern in Kansas City over misuse of dollars. I have visited there. I have called on the IG to investigate. I visited the area with HUD officials because we understand that the abuse of taxpayer dollars cannot be tolerated.

While I understand this is an ongoing investigation, I would like to know what you can tell me directly about it and what HUD is doing to prevent possible abuses from happening again as well as your assurance that there will be continued attention to this matter.

Mr. JACKSON. First, Mr. Chairman, I want to thank you for bringing the matter to our attention. We quickly began the process of evaluating exactly what has taken place.

We are in the process of finding out and we will, when it is finished, make our findings to you. We will also take the appropriate action.

As you know, we allocate the funds to the cities and the cities have the responsibility to make sure that there is checks and balances. But that does not in any way relieve us of our responsibility. I take that responsibility greatly.

So I will tell you that, as you know, we sent a General Deputy Assistant Secretary out with you to make the finding—

Senator BOND. Right. We appreciate that.

Mr. JACKSON [continuing]. We will continue to do that. We are going to make every effort to make sure that that does not happen again. I will report to you as soon as we have the final findings.

Senator BOND. Thank you very much, Mr. Secretary.

Is Mr. Ken Donohue, the HUD IG, available?

Mr. JACKSON. Yes.

Senator BOND. Mr. Donohue, could you come up to the microphone. You know I asked you to review the use of CDBG funding as it pertains to the rehabilitation of the two houses on Tracy Avenue. I know that you have been reviewing the city's use and I would like to know what your views are or what you can tell us at this time.

Mr. DONOHUE. Yes, Mr. Chairman. Thank you very much.

As you know, we did conduct a series of audits with regard to the Kansas City housing programs. The most recent being the HEDFC Program.

And I really do appreciate the chairman's interest with regard to the Tracy Avenue project. You agree an expensive amount of rehabilitation was spent on those two single-family homes.

I want to assure you that we are continuing to review this matter and follow-up on your concerns. I can report out to you today that based on these audits, the Department has issued a limited denial of participation on the HEFDC and some of its officials.

This will require the City of Kansas City to assume control of the \$50 million to \$80 million with regard to the portfolio administered by HEFDC. And I believe the city is currently in negotiations to award a contract.

Senator BOND. We thank you and we look forward to your final report.

When I was there with the representative of Secretary Jackson and the Mayor of Kansas City, the City Manager expressed a strong commitment to take over the administration of the program and to deal with those abuses.

I know there are many more steps, but we appreciate your role in undertaking that.

REVIEW OF HOMELESS ASSISTANCE GRANTS

Mr. Secretary, another, if you will permit me, another parochial interest, very important to the City of St. Louis. I recently sent a letter March 11 asking HUD to review the award of only \$4.2 million in homeless assistance grants to the City of St. Louis.

The City was eligible to receive \$10.8 million if it scored 82 points on a continuum of care application. It scored 81 points and gets \$4.2 million instead of \$10.8 million.

This funding is critically important. And I know that there are difficulties in reviewing and sometimes they are subjective.

I would like to know the status and would also like to know what steps HUD takes to ensure the results in the reviews are just, especially when the loss of funds by the narrowest margins is such a large magnitude.

Mr. JACKSON. Mr. Chairman, thank you very much.

We are totally evaluating the allocation. There was a technical mistake. And clearly from my perspective, it deserves us to look again at the process that we used.

I think you said it well. In many cases, yes, we try to be objective, but sometimes it is very subjective.

We hope to have an answer to you very quickly, as I have said, because it is important that St. Louis receive those monies.

Senator BOND. Thank you very much, Mr. Secretary.

Now I turn to Senator Murray.

Senator MURRAY. Thank you, Mr. Chairman.

RESCIND UNOBLIGATED CASH AND CARRY-OVER FUNDS

Mr. Secretary, your fiscal year 2006 budget seeks authority to rescind \$2.5 billion in unobligated cash and carry-over funds from fiscal year 2005 and previous years.

Your language allows you to take this funding from any account within HUD. I was not on the subcommittee that funded HUD last year and I am troubled by this practice where you kind of "one hand giveth and the other hand taketh away".

Can you please tell us today precisely which programs you intend to cut in order to achieve your proposed rescission of \$2.5 billion?

Mr. JACKSON. Ranking Member, I cannot. And what I will do is in all honesty go back and look at possibilities.

Initially we had said the Section 8 program, but it permitted us to take it from other places within our budget.

I can respond to you for the record and get that to you specifically.

Senator MURRAY. Well, do you think you will be in a position to identify where these cuts are coming from before we mark up this appropriations bill probably in July?

Mr. JACKSON. We have the next 18 months to identify. And usually we will not start that process until June or July.

Senator MURRAY. So when we are marking up the appropriations bill, we will have no idea where you are going to be taking those from?

Mr. JACKSON. I will tell you we will have to in all honesty look at the budget. It is a very, very tight budget that we are operating under and I do not want to give you specifics today and then find out that 6, 7 months from now those are not the specific areas where the rescission will come.

And I am trying to be as straightforward as I can with you. I cannot today give you the specific areas.

Senator MURRAY. Well, I think that makes it really hard for this subcommittee to write a bill when we do not know where you are going to be taking money away from.

A similar rescission totaling \$1.5 billion was imposed on this current year. And you do plan to accommodate that rescission, I understand, by recapturing unused voucher funds from Section 8?

Mr. JACKSON. That is correct.

Senator MURRAY. Can you guarantee me that a rescission of \$2.5 billion as recommended in your budget will not result in the loss of housing or other essential services to any of our low-income individuals or families served by HUD?

Mr. JACKSON. No, I cannot do that.

Senator MURRAY. So it could possibly come from those?

Mr. JACKSON. Yes.

Senator MURRAY. Well, I understand that many of your grants to actually eliminate homelessness remain unobligated because the grants are not transmitted to the housing agencies until late in the year.

Can you guarantee that none of your proposed \$2.5 billion will be derived by limiting available assistance to the homeless?

Mr. JACKSON. Homelessness is an extreme priority for us just like the Section 8 program. I will do everything within my power to make sure that those are not rescinded.

Senator MURRAY. Well, Mr. Secretary, there are very few programs I know of that have such wide bi-partisan support by members of Congress, governors, mayors. We have been flooded by people supporting the Community Development Block Grant.

The administration is planning to merge this program with 17 others and then cut the available funding by more than a third. The rationale that has been presented in the President's budget for consolidating and cutting these programs is that the existing programs are cumbersome, duplicative, ineffective, and unaccountable.

Do you feel that CDBG is unaccountable under your authority?

Mr. JACKSON. Absolutely not. And that is not the basis for the consolidation. What we are saying is to try to get all of the economic development programs in one place.

And I think it would be very hypocritical on my part, having been chairman of two community development agencies, one in St. Louis and one in Washington, DC, and I have seen the effects of those programs which are very positive around the country, specifically in Washington. It has been extremely effective in Seattle and Spokane.

So I think to say that the program has been ineffective—there are problems in the program. There is no question, as just the chairman just said.

But you have to note that once those were brought to our attention by OMB, the thing that I did specifically was to compel people in the profession, the industry, and members of OMB staff to go out and make recommendations how we could better make the program work.

And we came back with those specifics and we have submitted those to your committee and to the Senate and to the House as to how we can better make the program work.

CDBG CONSOLIDATION

Senator MURRAY. Mr. Secretary, in the President's budget, he said that he is consolidating and cutting these existing programs because they are cumbersome, duplicative, ineffective, and unaccountable. Those are the administration's words.

So you are telling me they are not unaccountable?

Mr. JACKSON. I am telling you the Community Development Program is not unaccountable. I am saying to you that the Economic Development Program for consolidation purposes, yes, a number of them exist around six or seven different agencies and they are encumbered because some, I do not think, should be—

Senator MURRAY. Well, what is cumbersome or ineffective? Meals on Wheels, elderly and child day care? What programs that CDBG supports are cumbersome and unaccountable?

Mr. JACKSON. Well, I do not think they are not specifically talking about the Community Development Program. We are talking about the Economic Development Program. We are consolidating for the purpose of economic development.

Senator MURRAY. Well, the administration is planning to merge CDBG with 17 others and then cut that funding by a third. And

in the budget itself, the President said the reason he is merging CDBG is because it is unaccountable and duplicative and ineffective.

And so I am just asking you which programs under CDBG? Is it Meals on Wheels? Is it child care? What is it that is cumbersome, unaccountable and ineffective?

Mr. JACKSON. I am saying to you, Ranking Member, that is not my perspective of what the bill says. We are talking about economic development programs, not the Community Development Program per se. And that to me is a very different perspective.

You are asking me their ineffectiveness—

Senator MURRAY. I am just reading the words of the President's budget.

Mr. JACKSON. I understand what you are saying. I am saying to you, are you asking me there is ineffectiveness in the Community Development Program? Yes. I think you have seen one example which the chairman gave. But I'm saying overall, there is a great deal of good that comes from the Community Development Program.

Senator MURRAY. Thanks, Mr. Chairman.

RESCISSION OF \$2.5 BILLION FOR FISCAL YEAR 2006

Senator BOND. Thank you, Senator Murray.

Let me go back to this proposed rescission of \$2.5 billion. My staff has asked HUD and OMB for justification of the rescission.

Where did you come up with it? I hope that this was not a Professor Swag estimate of \$2.5 billion. Is there some kind of analysis that is performed to justify the level of rescission in the budget? There has to be a rationale for a \$2.5 billion cut. What is it or where is it or when are we going to get it?

Mr. JACKSON. As I said to the ranking member, Mr. Chairman, we will start the process probably in June or July looking at where the rescissions will occur. To tell you specifically where they will occur, I am not in that position to do that today.

Senator BOND. Well, Mr. Secretary, we understand the House is going to act on all these bills in June. We are going to be acting on them in July. And we need to know what we are buying.

Are we buying a pig in a poke or are we buying a rational plan? At this point, I lean towards the pig. I want to see the plan. And June or July, unfortunately I tell you, is not an adequate time for us to do our work. We have got to have it before we start trying to allocate the headaches that this budget causes us. So, please, we need this by the end of April.

Mr. JACKSON. I will make every effort to get it to you as quickly as possible.

Senator BOND. Thank you. We need it by the end of April.

TRANSFER CDBG PROGRAMS TO COMMERCE

Moving on to the CDBG, I got this wonderful November 20, 2004, consensus document, where a joint HUD, OMB, grantee outcome measurement working group reached consensus on an outcome measurement system to implement the CDBG program. This group spent significant time to make CDBG more effective. I do not understand after we have gone through all this effort to make it work

why the administration wants to eliminate CDBG and begin again at Commerce.

But I have got some practical questions. How could a new block grant work even if enacted this year? Even if we were to pass it—and I am going to do my best to make sure we do not—how could the Department of Commerce or any department actually get a new program on track, create regulations, educate grantees, and get the money out the door?

What is going to happen to existing projects? Where does all this go and how does some other agency get a handle on it?

Mr. JACKSON. I think, not passing the buck, Mr. Chairman, I think you are going to have to ask the Secretary of Commerce.

We simply zeroed out \$4.5 billion out of our budget for 2006. How it is going to be implemented, what is going to occur, legislation now is being drafted by Commerce to that effect.

And we will have input in that legislation. But that question I cannot answer at this point.

STAFFING REQUEST

Senator BOND. Well, I would look at your staffing request, staffing and salaries. HUD is requesting an increase of \$32.5 million over the 2005 level, a total of \$1.15 billion for salaries. At the same time, the administration is proposing elimination of CDBG block granting, homeless, Section 8, as well as reduced regulatory requirements over PHAs. Your staffing requests are going up while the OMB budget requests for programs are going down.

How could you need even half that amount if we were to adopt all of the draconian cuts and removals from HUD jurisdiction? What are your true S&E needs were we to enact all these changes?

Mr. JACKSON. Those are our true S&E needs. And I will tell you that we have cut our staff substantially over the last 2 years. And it is because in many cases, we have had an increase in the cost of living, increase in merit salary that in essence requires us to cut the staff but at the same time to meet the criteria.

We feel today that it is very difficult for us to carry out some of our missions without an increase in staff and we are asking, as we have said before, for the increase in staff. And that is what we are projecting within the budget because we have to.

Let me say this to you, Mr. Chairman. When I go out into the field—and I am probably one of the few secretaries that has ever spent any time in the field. I think I have been, of our 81 field offices, I think have been to 53 of them. I have been to every one of our regions.

And when I walk in there and realize that there is not enough personnel within those specific field offices or regional offices to carry out the work, I think it is imperative that I ask not only the administration but also the Congress to give me leeway to make sure that those positions are filled.

Senator BOND. Thank you, Mr. Secretary. We want to see that your programs work. We want to see that the ones that should be in HUD stay in HUD. I know you are going to have to travel to Alaska and the great Northwest but please stop in the Midwest on the way back.

Mr. JACKSON. And I can assure you I am going to stop by Senator Murray's State, too, before I get there or on the way back, one of the two.

Senator BOND. Yes. All right. Well, I will turn the questioning over to Senator Murray now.

Senator MURRAY. We are a stop on the way to Alaska, so it does work.

NEW CDBG FUNDS TO BE SPENT ON HOUSING ACTIVITIES

Mr. Secretary, you are the chief administrator for the Nation's housing needs. So can you tell me what percentage of the Bush Administration's new Consolidated Block Grant Program will be spent on housing activities?

Mr. JACKSON. No, I cannot. I think again until the legislation is developed by Commerce, I cannot.

I can tell you 2005, \$4.5 billion.

Senator MURRAY. We have not gotten any authorizing legislation yet. You say that is going to be developed by the Department of Commerce?

Mr. JACKSON. Yes.

Senator MURRAY. And that you would not have any say in that at all?

Mr. JACKSON. No. We will have input in it, yes.

Senator MURRAY. So you will have input?

Mr. JACKSON. Yes.

Senator MURRAY. So I will assume you will advocate for housing needs?

Mr. JACKSON. Absolutely.

Senator MURRAY. And you know that roughly a quarter of CDBG funds today are used for housing. What would you advocate for under the new—

Mr. JACKSON. Again, I will tell you that, as I said a few minutes ago to you, I am convinced that the Community Development Block Grant Program has some ineffectiveness. But as a whole, it is a very excellent program that has done a lot for cities in this country.

So I will continue to advocate the flexibility and that as much money as can be appropriated be appropriated for housing and community development, that is infrastructure, development zones.

Senator MURRAY. As this authorizing legislation is put together and you are advocating to the Department of Commerce, what programs will you tell them should not be cut or what current uses under CDBG will you tell them have to remain as part of authorizing legislation? What do you think is important?

Mr. JACKSON. I think all of it is important.

Senator MURRAY. So you are not going to tell them that anything is not eligible anymore? Everything will still be eligible? Is that what you—

Mr. JACKSON. I think that we have sent over to Congress some suggestions and that is for a proposal as to how we can best redistribute the Community Development Block Grant fund on an equity basis. That is for you all to decide.

We did not make a recommendation because we thought that clearly that was not within our purview. And let me tell you why

we did that. It is because there are some inequities that exist within the program.

Once OMB did the pilot study for us, we said let us look at this and make the best recommendation to Congress that we can make. As a whole, I think we have done that. We have also made recommendations how to best administer the program.

So when you start looking at the program, it is a very difficult process to say what should or should not be cut. In my perspective, all of those programs are very important.

Senator MURRAY. So everything that is currently eligible for use under CDBG you believe will still be eligible for—

Mr. JACKSON. I will truly advocate that they should be.

Senator MURRAY. So we are going to take CDBG, combine it with 17 other programs, and then cut the funding by a third and everything is still eligible?

Mr. JACKSON. My position is—again, I will go back. We reduced our budget by \$4.5 billion. How that is going to play out in Commerce, I do not have the legislation before me. And once we have input in the process, I will tell them what I think is very important.

Senator MURRAY. But you cannot give us any programs? Meals on Wheels, do you think that is affected? Child care? Elderly care?

Mr. JACKSON. Yes.

Senator MURRAY. It is going to be tough, Mr. Chairman. I am looking forward to seeing the administration's proposal.

All right. Well, let me ask one more question in my time then.

FOSTER CARE HOUSING

Mr. Secretary, there are some studies out there indicating that the primary reason why as many as 30 percent of our children who are in foster care today cannot be reunited with one or both of their parents is because they do not have adequate housing.

These are the cases where a parent has gotten over their substance abuse problems, fulfilled other requirements, and the judge is ready and prepared to reunite the kids with their parents as long as they find adequate housing.

Now, the average welfare family has 2.7 children and the cost to the taxpayer of keeping those kids in foster care is about \$48,000 a year. Your agency, however, provides housing for families of this kind for a subsidy of about \$13,500 a year.

Do you not think it makes more sense both for the families and for the taxpayer to make an aggressive effort to find housing for this population so kids can get out of foster care and be reunited with their parents?

Mr. JACKSON. I surely do. And let me tell you that that is why we have increased the homeless budget by \$1.4 billion, but we have also created the Interagency on Homeless where we have four agencies working together to deal with the homeless problem from a holistic point of view, but from a whole perspective.

I had a chance about 5 weeks ago to be out in California with Governor Schwarzenegger to see a program called Path that is doing exactly what the President has set forth.

It starts with the person who has been on the streets or family that has been on the streets more than 90 days. And they start

with basically looking at them from a physical, mental, and medical perspective, then training them for job training and putting them through.

So I totally agree with you that it is much cheaper and much more productive to house them the way you have said with our program than to keep a child in foster care.

Senator MURRAY. Okay. I understand that the Tenant Protective Fund has a special designated program just for family reunification. In fact, I believe Senator Bond was instrumental in getting that program authorized.

Mr. JACKSON. That is correct.

NEW VOUCHERS FOR THE TENANT PROTECTIVE FUND

Senator MURRAY. But I also understand that no new vouchers have been issued for that program for the last 4 years and I just want to know why your agency has not issued any new vouchers to get some of those families reunited.

Mr. JACKSON. We are issuing the vouchers. And let me say this to you. Most housing—well, not most—all housing authorities realize that the homeless families take priority on their waiting list.

If we can find or if you can denote to me those that are not doing that, I will be happy to speak with them. But that is a top priority of every housing authority in this country.

Senator MURRAY. Well, I understand you are issuing renewals, but you are not issuing any new vouchers. And I have heard that that is because you want to leave that funding available for your rescissions. Is that correct?

Mr. JACKSON. That is not true.

Senator MURRAY. Okay. So why have no new vouchers been issued?

Mr. JACKSON. We do not have new vouchers to actually issue at this point. I mean, we have funded the program and the new Section 8 voucher program by \$1.1 billion increase.

What is occurring is this, and we are going to have to deal with this, is that pre-1998, housing authorities received a budget base amount of money. And I can tell you because I am probably the only Secretary ever to appear before you have ran a housing authority.

In Dallas, we got \$20 million as an example and we housed as many people as we could. Today it is unit-based. Well, we just moved away from the unit-based. But it was unit-based.

And what occurred is this. With the unit-based, we also put another appendage to it that 75 percent of those vouchers must be used for people 30 percent or less of median.

What that created was a symptomatic problem. When we did that, 90 percent or over 90 percent of those people do not pay anything to live. In fact, we pay them to live in subsidized housing. We pay their utilities. We pay their expenses.

So what we have seen is the Section 8 budget rise exponentially, but we are not housing any more people. If I go back to 1995, when I left the Housing Authority in Dallas, I will bet you that today that 60 percent of the people who were on that waiting list are still there today.

Senator MURRAY. That is right because housing prices have increased.

Mr. JACKSON. No, they have not. They have increased in your area. They have increased on the east coast. But west, southeast, the housing costs for apartments have gone down. But, yet, we are paying extremely high prices because the unit-based system has protected landlords to charge what they wanted just to get a person in.

I think competitively, once we go back to a system where people are paying, I think we will have a different situation. That is why we have suggested that we raise the limit to 60 percent of median where we do have people.

Pre-1998, a person spent about 3.5 years on a voucher.

Senator MURRAY. Are you going to protect areas that have higher housing costs?

Mr. JACKSON. Today they're spending 8.

Senator MURRAY. Are you going to protect areas like the Northwest and Northeast that—

Mr. JACKSON. Absolutely. And I think that that flexibility in the flexible voucher program gives the housing authority with a budget-based process and the flexibility they have to decide what they want to pay for a voucher.

Senator MURRAY. My time is up.

Senator BOND. Thank you, Senator Murray.

HOPE VI

I am going to try to wrap up my questions on this round. Obviously as you might expect, I have an extensive question on the HOPE VI rescission since I spent so long working to get it established and know how it works.

I am going to give you some time and maybe somebody at OMB can help you write a rationale of why you are trying to not only gut it but also rescind prior year funding.

IMPACT OF THE BUDGET-BASED SECTION 8 VOUCHER PROGRAM

Let me move to the Section 8 vouchers. You know, we work with you and I think we reformed the Section 8 voucher program as a budget-based program by requiring HUD to allocate funds by a budget-based formula. Unfortunately, we have not been able to get the data for the 2005 bill to make sure we included enough funding. We did the best we could, but I would like to ask you what is the impact of the approach? Are the number of vouchers going to decrease from the high point? What is HUD doing to ensure that PHAs are providing better data? Are they lowering payment standards and what has been the impact of this new budget-based program for Section 8 tenants?

Mr. JACKSON. I welcome that question and let me tell you why, Mr. Chairman, because I think we have not held the public housing authorities accountable in the unit-based system.

I do believe that the passage of the budget-based program last year, if with the passage of the flexibility this year, will give housing authorities the abilities to house more people and to have a tremendous turnover.

I think we have to look at the basis for the Section 8 program. And I think over the years, we have lost that perspective and I am not talking about the Congress. I am talking about the housing authorities.

The Section 8 program was created as a transition between public housing and conventional housing. And when I say that, I mean whether it is affordable rental property or home ownership.

We have, over the last 15 years, made it a substitute for public housing. And since 1998, we have made it basically public housing in many ways when we said only 30 percent or less must get 75 percent of the vouchers.

To me, there are still people in this country at 60 percent of median who can use a voucher for a period of time. Pre-1998, we spent about 3 years with the voucher, 3.5 years. Since 1998, it has gone to about 8 years.

But the key to it is that we are not serving any more people. We are serving the lowest of the lowest and we have planned projected prices that clearly should not be paid in many parts of the country.

That is not in Senator Murray's area in the West Coast or in the East Coast. Maine, Massachusetts, yes, those are very high markets. But in the Southeast, the South, and the Southwest, the markets are not that high. In the Midwest, the markets are not that high. We have ample rental apartments, but still we are paying this unit-based cost.

So my contention is, Senator, if we can pass the flexible part of the Voucher Program now that it is already budget based, we can begin to house more people and they will not be on the program as long.

NEGOTIATED RULE-MAKING

Senator BOND. I raised concern earlier about the public housing negotiated rule-making. The negotiated rule was based on a study conducted by the Harvard University Graduate School of Design. Unfortunately, the OMB-revised rule appears to deviate significantly from the negotiated rule. Is not this revision, substantial revision a violation of the negotiated rule-making process which we are required by statute?

Mr. JACKSON. I had a meeting yesterday with the leadership of the three major entities that represent housing authorities. That is the Council on Large Housing Authorities, five of the Public Housing Authority directors, Ann Clap of the Council on Large Housing Authorities. They perceived that it is.

We think that we were very candid with them in our process of negotiation when we said that there is always possibilities that there will be changes. During the comment period, you will have a chance to make your wishes known.

We think that probably 85, 90 percent of what we negotiated is within the rule today. Were there changes? Yes. Will they have a chance to make sure that their voices are heard? Absolutely. Are the housing authorities losing? Yes.

But the majority of the housing authorities are gaining under the present negotiated rules, Chairman Bond. And, you know, we think 80, 85 percent of them are gaining. Will we ever get 100 percent? No.

But we believe—and we are open, as I told all three of the representatives yesterday, to listening to them and to go back and see if there is some efforts we can make to correct some of the concerns that they have.

FHA MORTGAGE INSURANCE

Senator BOND. One final question is going to be on FHA mortgage insurance. And I would invite Mr. Donohue to come back up to the table and just give us a quick summary of what is happening with the increasing FHA defaults and what is your assessment of the Zero Downpayment program based on the audits you have conducted on the FHA mortgage insurance program.

Mr. DONOHUE. We have done substantial work as far as audits with regard to the FHA default and we concur with the spiked increase of defaults in the past few years. I believe you quoted 6.9 percent for 2004.

I believe in our review, the zero down payment or no out-of-pocket money for the recipient has inherent problems that can impact on the FHA funds even though I know FHA is increasing the premium amounts, but I do think that this could have an impact on the function and operation of FHA.

Senator BOND. Mr. Secretary, home ownership is at an all-time high, 73.7 homeowners. However, some people are not ready for home ownership.

Mr. JACKSON. That is correct.

ZERO DOWNPAYMENT ACT

Senator BOND. Why should we take the risk to the FHA fund when it appears that the only way you can reach out is to provide people no-cost housing which we have seen unfortunately leads to defaults? And it is not only disastrous for the community but disastrous for the credit history and the reputation of the families who get this so-called benefit.

Mr. JACKSON. Mr. Chairman, FHA claims are down 15 percent from last year. And why I think it is necessary, I will tell you. Again—and I do not say this for advisement. I am probably the most traveled Secretary to the persons that we serve.

I would just like to use an example of a family that I met in Las Vegas, the Gonzaleses, who came to this country, I think, some 20 years ago. The wife works in the hotel, but she works in the maid service. The husband works in the kitchen of another major hotel.

Together they make about \$40,000 each. I believe that the most difficult things that they said to me with them is the ability to make the down payment and closing costs. They are paying about 42, 43 percent of their money for rent.

If we can get them into a home, I am convinced in my heart that they are going to stay in that home. They will probably be paying about 30 percent of their income for rent.

See, I believe this. I will not call the name of my friend because if I call him, you and I will both know him. But I have a friend who is a major doctor who has defaulted on two homes and both of them were zero down payments. He still has another million dollar home with a zero down payment.

I believe that if we can give low-and moderate-income persons the same opportunities, we will not have a huge default rate. I believe we should give them that opportunity.

And, you know, I will just close with this, something that my mother used to say, and this is why I stress home ownership a lot but also affordable housing. To live with a dream might be madness, but to live without a dream is insanity.

There are a lot of people who want home ownership. I think if we can help them through what the President has put forth with the American Dreams Down Payment Act and Zero Downpayment Act a number of people who would not have the opportunity to be homeowners will be.

Senator BOND. I appreciate your explanation. But when you look at what happens, I am afraid that is a path for a lot of hardship for communities and families.

Senator Murray.

FARM LABOR HOUSING

Senator MURRAY. Thank you. I just have a couple more questions and I will submit some. I have some more on HOPE VI too.

But I wanted to ask you about a significant need across the country and my home State and that is for seasonable and permanent farm labor housing.

I am aware of the assistance of the Department of Labor and Agriculture in this area as well, but it really is not enough to meet the needs out there.

Can you talk to us about what HUD's current authority is and activities related to farm labor housing and do you think your agency is doing everything it can in that area?

Mr. JACKSON. I am just not sure. I have to ask the Assistant Secretary Weicher.

Mr. WEICHER. I am sorry, Senator Murray. We do not have responsibility for—

Mr. JACKSON. I did not think so.

Mr. WEICHER [continuing]. Lending. We do not have the responsibility for the Rural Housing programs and the Old Farmer's Home Administration. We can make loans in rural areas and we do, but those are separate programs.

Senator MURRAY. So you do nothing for farm labor housing?

Mr. WEICHER. I beg your pardon?

Senator MURRAY. You know, I notice that you talked a lot about homelessness and I know that the President reactivated the U.S. Interagency Council on Homelessness so cabinet-level leaders can work together on that problem.

The farm labor community is one of the most poorly-housed populations in the Nation and the only government solutions really are spread out over three different departments.

Mr. Secretary, you are the lead national official for the Nation's housing needs and farm labor housing is one of those.

Would you see any merit in convening a cabinet-level working group to address farm labor housing and would you be willing to work with me on this?

Mr. JACKSON. Absolutely.

Senator MURRAY. Well, I would like to—

Senator BOND. Senator Murray, excuse me. I have been summoned back to my office and if you don't mind, I will give you the—

Senator MURRAY. Great.

Senator BOND. I thought you might just like a little bit of practice in case. So with that—

Senator MURRAY. Senator Leahy and I will be more than—

Senator BOND [continuing]. I thank you, Mr. Secretary, for your noble efforts to answer some unanswerable questions. I intend to ask others the same questions.

And, Senator Leahy, you can continue with Senator Murray.

Senator MURRAY [presiding]. I just have one additional question—

Mr. JACKSON. Thank you, Mr. Chairman.

Senator MURRAY [continuing]. And I will turn it over to Senator Leahy. But thank you, Mr. Chairman.

Mr. Secretary, I have one other question. I do want to follow up the farm labor housing with you. It is a critical housing issue and we have not done enough. We need to do more and I want to work with you on that.

ERROR IN DISTRIBUTION OF SECTION 8 FUNDS

But let me ask you one other question. I recently heard from King County Public Housing Authority. It is one of the largest public housing authorities in my State. And they tell me that as a result of a computing error that was executed by HUD in the distribution of Section 8 funds, they are enduring a loss of \$800,000 this year.

And I am told that HUD staff admitted to them that this was done in error, but HUD is also telling them they now do not have the money to rectify that error, their error.

As a result, this agency is contemplating sending out a letter to all the families on their waiting list explaining that as a result of those losses, they are going to be terminating that waiting list since no families on the waiting list will have any hope of getting a housing voucher at any time in the future.

There are currently 5,000 seniors, disabled people, single parents, and refugees who are on that waiting list who are about to get that notice because of an error made by HUD.

Are you familiar with this situation?

Mr. JACKSON. Yes.

Senator MURRAY. Well, I would appreciate your response then today on what—

Mr. JACKSON. We are resolving that situation and it should be resolved immediately with the King County Housing Authority.

Senator MURRAY. And will we be getting a phone call today regarding that?

Mr. JACKSON. I cannot say today, but Assistant Secretary Liu has been in contact with the executive director there.

Senator MURRAY. Well, as of last night, they had not heard anything. Can we have someone call us today—

Mr. JACKSON. I surely will if they have not.

Senator MURRAY [continuing]. And let us know when that phone call is going to be made and how that will be rectified?

Mr. JACKSON. I sure will, Senator.
 Senator MURRAY. Thank you very much.
 Senator Leahy.

STATEMENT OF SENATOR PATRICK J. LEAHY

Senator LEAHY. Thank you. Thank you, Senator Murray.

Secretary Jackson, I would like to welcome you, in your first appearance before our newly reconstituted and renamed subcommittee. Sometimes it is hard to keep track of all the name changes.

I see some familiar faces here, of course, Senator Bond, who just stepped out, and Senator Murray, two people with a great deal of experience.

So I am looking forward to working with all of you as we tackle this new bill in the upcoming fiscal year.

This is my first hearing as a member of the subcommittee, although I have been on the full committee for nearly 30 years. I wish we could start on a more positive note.

But if we look at the President's proposed budget, it calls for a total of 12 percent in cuts to housing and community development programs. Some days I wish our housing and community development programs were treated with the same expanding budget as they are if they are in Baghdad or somewhere in Iraq and not here in the United States.

ELIMINATION OF CDBG PROGRAM

Most egregious I find is the complete elimination of the Community Development Block Grant programs. I know that has been raised this morning, but I have got a couple of questions on it.

And I am not suggesting it is an either/or thing with Iraq, but we do fall over ourselves to increase, for example, law enforcement money for Iraq at the same time we eliminate the Cops program here in the United States.

We work to increase housing in Iraq, we cut it here. We increase some of the educational funds for Iraq, we cut it here in the United States.

And after a while, people are justified in asking do we have to be an either/or as a great nation?

CDBG is the largest program up for elimination. And the President says he calls it a Strengthening America's Communities Initiative, some of us however call it the Abandoning America's Communities initiative.

Under the proposal, 18 community and economic development programs would be abolished. A new block grant program will be established at the Department of Commerce.

Now, I see no specifics in the goals of this program. We have no information on how the money is going to be allocated. We have no information on what activities will be eligible. We do know however that it is going to be \$2 billion less than was spent last year in community and economic development.

And considering the fact that your agency, Secretary Jackson, is principally responsible for housing and community development, why would you agree to turn this over to the Department of Commerce? They have no experience in this field.

Your department has decades of experience. You have superb professionals at HUD, from both Democratic and Republican administrations. Commerce has none of that expertise.

How do you justify this?

Mr. JACKSON. Senator, as I said before the House Committee, we made what we perceived as a logical argument as to where the Economic Development Program should be housed, that is the Strengthening America's Community Initiative Program. The decision was made that it would go to Commerce.

We are in full agreement that the economic and development programs from those 17, 18 departments should be consolidated. We felt that we could do the job at Housing. But Commerce also had an economic and development program.

And the decision was made and I fully support the consolidation. I will tell you that right now of those programs.

Senator LEAHY. Does this not eliminate community development as part of HUD's core mission?

Mr. JACKSON. We have zeroed out \$4.5 billion that was allocated for the Community Development Program. We still have the HOME program and other programs that were under the community development—

Senator LEAHY. If you have got 37 percent less money, how are you going to do it?

Mr. JACKSON. Senator, as I said to the Ranking Member Murray, we zeroed out \$4.5 billion out of our budget. I cannot comment on what the budget will look like or what the programs will look like at Commerce.

What I said to her is that we will use our vast experience in giving advice to Commerce as to what we think is very important with the Community Development Program.

Senator LEAHY. Do not hold your breath waiting for them to take that advice because basically they cut the money, they got rid of HUD's core mission, and handed it over to somebody who has no experience.

The budgets for HUD when they've come up here over the years have been littered with bullet holes. One year, it is Section 8. Next it is Public Housing. Next it is CDBG.

It appears to me that the administration just abandoned HUD. Obviously you feel differently. Your testimony says you feel differently. But it is awfully hard to see it otherwise.

ADDITIONAL COMMITTEE QUESTIONS

Thank you, Senator Murray. If I have other questions, I will submit them for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR ARLEN SPECTER

CDBG AND LOCAL COMMUNITY SUPPORT

Question. The President's fiscal year 2006 Budget proposes to consolidate 18 economic development programs, including HUD's CDBG program, into one program within the Department of Commerce. In fiscal year 2005, the CDBG program was allocated \$4.11 billion. However, the President's fiscal year 2006 Budget would pro-

vide only \$3.7 billion for the consolidated initiative, which includes all 18 programs. I have heard from many Pennsylvania communities that the CDBG program provides critical funding to support many community development activities such as housing rehabilitation, public facilities, public services and economic development.

With the elimination of the CDBG program—the largest source of Federal assistance to State and local governments for community and economic development projects, how do you propose to work with local communities to continue to meet HUD's mission to support community development and address the housing needs of society's most vulnerable?

Answer. HUD will continue to administer all its housing and homeless assistance programs that provide much needed assistance in accordance with HUD's mission. The new program, Strengthening America's Communities Initiatives (SACI), at the Department of Commerce will also address community and economic development needs in a productive and targeted manner.

HOPE VI

Question. HOPE VI enhances communities by decentralizing poverty and giving families an opportunity to live in mixed-income neighborhoods with better educational and employment opportunities. I have visited HOPE VI sites throughout Pennsylvania and have discovered the critical impact that reconstruction in these public housing developments has on revitalizing neighborhoods. In the past, HUD officials have cited problems with the slow pace of HOPE VI reconstruction and high costs, in comparison to other HUD programs. However, I have often heard from my constituents that delays of HOPE VI projects were linked to HUD's approval process. Can you respond to the concerns raised by my constituents that delays in HOPE VI projects were often the result of HUD policies?

Answer. Since its inception as a demonstration program, HOPE VI has pursued the ambitious and complex goal of revitalizing the Nation's most severely distressed public housing developments. In pursuit of this objective over the last 12 years, the program has evolved significantly in its structure, methodology, and administration, offering an unprecedented learning opportunity for HUD and HOPE VI grantees.

As the program evolved, the mixed-finance development approach was incorporated into the HOPE VI program. In accordance with 24 CFR 941, subpart 6, which controls such development, the Department has been reviewing the PHAs' development proposal and legal documents for each construction phase in each HOPE VI grant. Due to the size of the HOPE VI grants, combined with other leverage funds that the PHAs have obtained, each grant may be broken out into 5 or 6 construction phases, resulting in a complex, and potentially time-intensive review process. Despite the complexity of the mixed-finance approach, the time it takes to complete construction has actually decreased significantly over the life of the HOPE VI program. Where the average grant completion time was 8 years HUD is endeavoring to lower that average to 4½ years.

This reduction in time is due to the heightened emphasis HUD continues to place on meeting deadlines and completing HOPE VI developments. Earlier in the HOPE VI Program, grantees were having difficulty constructing the required housing units in accordance with their original production schedules. HUD made significant strides to improve its oversight of HOPE VI grantees and management of the HOPE VI program between 2001 and 2004 in an effort to increase unit production and decrease delays in completing HOPE VI developments. These changes resulted in a shift from oversight and management approaches that included fluid production deadlines and expectations to a more balanced approach that makes HOPE VI grantees and HUD staff accountable for the progress of HOPE VI projects. Although grantees have clearly grown in capacity since the inception of the program, HUD's attention to deadlines and timely completion of developments has forced grantees to adhere to schedules and complete projects as planned. In turn, HUD continues to work internally to minimize the time necessary for review and approval by developing model documents, waiver opportunities and other streamlining procedures.

Question. Additionally, as HOPE VI has accomplished one of its goals of demolishing 100,000 units—which suggests to me that the program has been effective—how does HUD propose to accomplish this level of reconstruction in the future if HOPE VI is eliminated?

Answer. Rather than funding new rounds of HOPE VI grantees in fiscal year 2006, the Department believes that it is more responsible for the Department to aggressively manage and complete the grants currently awarded, many of which are years from completion. This pause will also give the Department time to continue to develop better methods for assessing distress, develop new financing tools and delivery mechanisms that are less costly and more efficient, and explore the need for

a new public housing revitalization program that is designed to address the scope of severe distress present in today's public housing inventory.

The Department recognizes the importance of addressing the current capital backlog within the public housing inventory. In most cases, this need can be more appropriately met through other modernization and development programs operated by the Department e.g., the Capital Fund, Capital Fund Financing Program and Mixed-Finance development. The Department continues to encourage housing authorities in need of this assistance to submit project proposals to these programs. To date, the Department has approved over \$2.4 billion in transactions using the Capital Fund Financing Program, with approximately \$94 million in additional funds in the pipeline. Of the approved transactions, over \$254 million will be used for development activities.

MOVING-TO-WORK

Question. Moving-To-Work (MTW) has enabled public housing authorities to implement federally-funded housing programs based on local needs by providing budget flexibility and regulatory relief. On December 15, 2005, I, along with 11 Senators, sent you a letter supporting the extension of MTW agreements to 2011 for public housing authorities that request an extension of their current demonstration term. We have received your response and understand that participants whose agreements are expiring in 2005 will be offered a 1-year extension. While we thank you for your response and the 1-year extension, could you please clarify why some public housing authorities initially received MTW extensions through 2011?

Answer. No housing authorities have received an extension to continue their MTW demonstration until 2011. Agreements for three of the demonstration participants have expiration dates that far out. Oakland and Baltimore only recently executed their agreements and were given the now standard 7-year term. Their Agreements expire in 2011 and 2012 respectively. Due the complexities of Chicago's Transformation Plan, their initial Agreement provided for a 10-year demonstration term, which expires in 2011.

Question. You also stated in your letter that HUD is currently examining potential legislation to determine if a successor program to MTW would be useful. Why is HUD examining this possibility, rather than expanding the current MTW program?

Answer. The examination of the MTW Demonstration and the overwhelming support it has received has led to the proposed legislation embodied in Title III of the State and Local Housing Flexibility Act of 2005. Title III would expand the program to allow even more Housing Authorities to participate. It would also establish a permanent program that includes features derived from the MTW Demonstration: the fungibility of programs, and flexibility to develop different approaches to providing housing assistance. At the same time, the proposal corrects some of the difficulties in the Demonstration that made it difficult to administer and to measure. These include requirements for uniform reporting and provision of uniform evaluation measures.

OPERATING FUND

Question. The Quality Housing and Work Responsibility Act of 1998 requires that HUD develop a formula for allocation of Public Housing Operating subsidies through a negotiated rule making process that includes the active participation and consensus of stakeholders. In 2000, Congress further directed HUD, in conjunction with the Harvard University Graduate School of Design, to conduct a study of the cost of operating a well-run public housing authority. It is my understanding that following completion of the cost study that HUD worked through a negotiated rule making process to develop a consensus with public housing authorities, private housing professionals and affordable housing advocates on the amount of subsidies, as well as transitional costs to implement the rule. I am gravely concerned that public housing authorities throughout Pennsylvania have contacted me recently asserting that the published rule alters this negotiated agreement reached on a consensus basis. Could you please provide me with an in-depth explanation of why HUD made changes to the negotiated funding rule prior to publication?

Answer. Consistent with requirements under Executive Order 12866 entitled "Regulatory Planning and Review" and other rulemaking authorities, the negotiated rule underwent further HUD and Executive Branch review prior to publication. As a result, certain of the committee's recommendations were revised to better reflect the administration's policies and budgetary priorities. Although changes were made to certain of the committee's recommendations, the proposed rule stays committed to the Harvard Cost Study and Negotiated Rulemaking recommendations.

Question. Additionally, HUD's fiscal year 2006 Budget proposal was developed after the conclusion of meetings conducted as part of the negotiated rulemaking process. Does your budget request accurately reflect the funding necessary to implement the negotiated rule, including transitional costs?

Answer. The 2006 request of \$3.4 billion represents approximately 89 percent of operating subsidy PHAs that are eligible under the proposed Operating Fund Rule. The proposed rule retains the Negotiated Rulemaking recommendation for a transition policy of up to 5 years to allow time for PHAs to align their resources with the new funding. The proposed rule provides PHAs with tools to convert to new asset management by providing monthly fees beyond the Harvard cost study for information technology, asset management, and asset repositioning. The proposed rule also provides PHAs with the ability to maximize other revenues streams without receiving an offset in subsidy. PHAs currently have approximately \$2.8 billion in operating reserves that they can use for transition costs.

QUESTIONS SUBMITTED BY SENATOR PETE V. DOMENICI

COMMUNITY DEVELOPMENT BLOCK GRANTS

Question. The President proposes a reorganization of economic and community development programs by consolidating them in the Department of Commerce. This consolidation includes taking the CDBG program out of HUD and transferring it to the Department of Commerce.

Eighteen programs from 5 agencies are involved in the proposed consolidation. The administration requests \$3.7 billion for the new "Strengthening America's Communities Grant Program." These programs are currently funded at \$5.3 billion, so the proposed consolidation comes with a reduction in funding of \$1.6 billion below the current level. By far the largest program in the proposal is the CDBG program, which currently receives about \$4.7 billion. The administration knows Congress will not approve the proposed restructuring of economic and community development programs. We have seen proposals such as this from previous administrations. However, the proposed funding reduction will have a significant impact on the ability of the Appropriations Committee to support ongoing programs in the fiscal year 2006 spending bills. Mr. Secretary, is your department working on actual legislative language to reorganize the economic and community development programs of the Federal Government?

Answer. The Department of Commerce has the lead on developing the legislative package to implement the Strengthening America's Communities Initiative (SACI). HUD has provided consultative support.

Question. If your department isn't doing so, is another department or agency within the administration working on such legislation?

Answer. The Department of Commerce has the lead on developing the legislative package to implement the Strengthening America's Communities Initiative (SACI). As stated, HUD has provided consultative support.

Question. Do you anticipate that the administration will actually submit such legislation to the Congress?

Answer. HUD is advised that the Department of Commerce is developing legislation that will be submitted to Congress.

Question. Since Congress has no intention of approving the proposed reorganization, what impact do you anticipate your Department to experience when Congress has to reduce ongoing programs by \$1.6 billion to stay within the overall discretionary spending gap proposed by the President?

Answer. It is important to note that overall funding for 35 Federal community and economic development programs is only reduced 4 percent, roughly in line with other domestic spending. The President, via his 2006 Budget, has proposed to consolidate 18 programs (from five agencies) within the Department of Commerce, including the CDBG Program. These programs would be consolidated into one new program—The Strengthening America's Communities Initiative. This initiative would support communities' efforts to meet the goal of improving their economic conditions through, among other things, the creation of jobs.

Question. Are you concerned about this eventuality?

Answer. As you know, CDBG funds are distributed according to statutory formula. If CDBG funds are significantly reduced, we are still required to distribute them according to the law. Nevertheless, HUD employees remain committed to the goals of promoting economic opportunity through community revitalization, home ownership, servicing society's most vulnerable—homeless individuals and families—and ending chronic homelessness.

QUESTIONS SUBMITTED BY SENATOR PATTY MURRAY

CDBG TRANSFER

Question. The administration has stated publicly that so-called affluent communities should not receive assistance from its new smaller substitute community development program. What will this mean for communities that might be comparatively affluent but still have significant pockets of poverty in their service area?

Answer. It is important that Federal funds for housing and community development be distributed in a way that maximizes their impact. In general, affluent communities possess the resources and tax base to provide services to their pockets of poverty, while distressed communities often lack adequate tax bases. While the distribution of funds cannot be changed without authorizing legislation, HUD will continue to examine certain policies and/or regulatory issues that would improve the program's effectiveness. For example, HUD's recently released CDBG formula study identified four distinct alternatives to the current formula, but Congress could opt for a variety of other approaches that HUD, or a new program, would implement. A policy review of this nature could provide an extensive menu of options for changing the allocation of Federal community and economic development funds. Further, CDBG grantees continue to express a need for HUD to provide technical assistance that would help improve grantee performance.

Question. Will they be blocked from participating in your smaller substitute community development program?

Answer. According to the Department of Commerce, the final number of communities that receive funding will depend on eligibility criteria, but the administration believes that funding should be targeted to those communities most in need. This will provide a greater level of funding to many communities than they currently receive. According to the Department of Commerce, for example, by funding only communities with poverty rates above 10 percent, approximately 700 communities and 50 States could receive funding that is higher than their fiscal year 2005 CDBG funding levels.

Question. A great many communities across the Nation build low income housing through the Section 108 loan guarantee program. With HUD's approval, they obtained a loan guarantee by pledging their future year CDBG funds. What would become of this Section 108 loan guarantee commitments if the CDBG program were eliminated?

Answer. The fiscal year 2006 Budget proposes to eliminate the Section 108 Loan Guarantee Program. However, we believe that existing Section 108 funded activities will continue to be viable because of other collateral that was pledged before the loan was approved.

Question. Will HUD still expect the communities to pay off these guarantees after you have gone ahead and eliminated the CDBG program?

Answer. Communities will continue to have obligations for Section 108 loan guarantee repayment. In some cases, communities may need assistance in meeting their obligations. This is being taken into consideration as part of the development of the Strengthening America's Communities Initiative (SACI) legislation.

CAPITAL NEEDS OF PUBLIC HOUSING

Question. Mr. Secretary, the most recent study of the capital needs of public housing was published in 1998. That study, which was financed by HUD, estimated that there was an estimated capital needs backlog of \$22.5 billion. The study also found that an additional \$2 billion in needs was likely to accrue each year thereafter.

Your budget asks us to cut the Capital grant program by a quarter of a billion dollars. You also want us to rescind almost \$150 million in dollars already appropriated for the HOPE VI program and zero out the program next year.

Mr. Secretary, I understand that, in a hearing before the House Financial Services Committee last month, you stated that the capital backlog has been reduced to \$18 billion over the last 4 years.

How is it that the capital backlog has been reduced by \$4.5 billion when funding for all your capital programs have barely kept pace with the level of accruing deterioration each year?

Answer. The administration's proposed budget provides sufficient funds to cover the accrual needs of Public Housing Authorities (PHAs). HUD commissioned a study of the capital needs of PHAs, which was released in 1998. That study identified an annual accrual of capital needs of approximately \$2 billion per year, as well as a backlog of capital needs. The administration's proposed budget would provide Capital Fund Program (CFP) monies in excess of the annual accrual need, allowing

PHAs to meet their accrual capital needs, as well as enabling them to address some of their backlog capital needs.

Further, activities such as the demolition and disposition of public housing projects have resulted in the demolition of more than 100,000 units of public housing since the preparation of the capital needs report in 1998. The vast majority of these units were distressed and therefore were the most expensive to maintain. This reduction in the number of public housing units has served to reduce both the backlog of physical needs as well as the annual accrual. It should also be noted that replacement units added to the inventory since the preparation of the report are new and therefore less expensive to maintain.

In addition to annual appropriations PHAs now are able to access the private financial markets and unlock the value of their portfolios. HUD has been implementing the Capital Fund Financing Program (CFFP), which was authorized under the Quality Housing and Work Responsibility Act of 1998 (QHWRA). Through the CFFP, PHAs leverage funds from the private market via a pledge of their future CFP grants. HUD has approved CFFP Proposals in excess of over \$2.4 billion, involving over 102 PHAs in more than 40 transactions. Funds derived from the CFFP have enabled PHAs participating in the program to address a significant amount of backlog physical needs.

In the future, HUD looks forward to expanding the CFFP to permit PHAs to use the Federal Public Housing Operating Fund in the same manner, and expand the use of mortgages to raise additional private capital.

Question. Does HUD have a new study to back up your assertion that the capital backlog has been reduced by \$4.5 billion? Would you please provide that study to the committee?

Answer. The Department is proposing to conduct a study of backlog needs in 2007.

FARM LABOR HOUSING

Question. Mr. Secretary, in our Hearing on April 14, 2005, I addressed the significant needs in Washington State for seasonal and permanent farm labor housing. As you are aware, the farm labor community is one of the most poorly housed populations in the Nation and the only government solutions are spread out over three different departments. Since you are the national official responsible for the Nation's housing needs, I asked that you raise this issue to the highest level by convening a cabinet level working group to look at creative solutions, including working with the private sector to address this problem. Mr. Secretary, I would like to thank you for agreeing to this request and working with me on this issue.

Can you tell me the progress of your efforts with this goal?

Answer. As you know, I am dedicated to increasing the minority home ownership rate in the United States, as well as expanding home ownership opportunities for very low-income populations. Under my leadership, HUD has expanded the resources and opportunities available to farm labor populations, and is now actively implementing policy recommendations that enhance the management, coordination, and delivery of HUD programs and services that improve the lives of farm labor populations throughout the United States. At my direction the Department continues to make enormous strides in delivering programs and services to these marginalized populations. These efforts are occurring through HUD's competitive and formula grant structures, as well as ongoing program processes which collectively have allowed HUD to invest over \$32 million in fiscal year 2004 in farmworker communities and colonias areas.

Some of this assistance includes: (a) \$2.3 million in Housing Counseling Grants awarded to organizations providing counseling services to migrant/permanent farmworker communities and colonias located in Washington, Oregon, Florida, New Mexico, California, and Arizona; (b) \$3.2 million in Continuum of Care/Emergency Shelter Homeless Assistance that entails funding to communities with high concentrations of migrant and permanent farmworker populations and colonias regions, and; (c) \$3.2 million in Rural Housing and Economic Development (RHED) grant funds.

I am very committed to insuring that HUD continues proactive efforts to improve the deplorable housing and living conditions of farm labor populations. These proactive efforts include equipping organizations that provide services to farm labor populations with the tools necessary to initiate and sustain housing and development services. One such technical assistance effort is the Rural Housing and Economic Development Gateway. A joint collaborative project between HUD and the Housing Assistance Council (HAC), a nonprofit organization that has been helping local organizations build affordable homes in rural areas since 1971. The Rural Gateway assists rural communities—including farm labor populations—improve

local housing and economic conditions by providing information resources, technical assistance, training, and investment capital to rural communities.

I know that decent, safe and sanitary housing is a critical foundation for farm labor populations. However, there are other basic necessities that play a vital role in addressing the plight of these communities. This is why I have given my unyielding support to the development of the Federal Interagency Partnership for Colonias and Migrant/Farmworkers Communities. The Partnership, initiated by HUD, provides a continuous dialogue with other Federal agencies that provide services to these distressed communities to join in coordinated joint ventures that expand the benefits to farm labor and colonias populations. The Federal Interagency Partnership includes 14 organizations within Federal agencies that have agreed to identify, collaborate and streamline service delivery available to these distressed communities. In sum, the Partnership allows for the maximization of Federal services assisting farm labor and colonias populations. In addition to HUD, Partnership members include:

- Corporation for National Service;
- Department of Agriculture/Office of Rural Housing Service;
- Department of Education/Office of Migrant Education;
- Department of Health and Human Services/Offices of Minority and Special Populations and International/Global Health Affairs;
- Department of Justice/Office of Civil Rights;
- Department of Labor/Employment and Training Administration;
- Department of Treasury/Community Development Financial Institutions Program and the Community Adjustment and Investment Program;
- Environmental Protection Agency/Office of Pesticide Programs, and Office of Environmental Justice;
- Federal Deposit Insurance Corporation;
- General Services Administration/Computers for Learning Program;
- Internal Revenue Service/Stakeholder Partnership, Education and Communication (SPEC) Group/Wage and Investment Division.

These entities are working with HUD to implement collaborative projects, such as the Legal Working Group and the Government Kiosk Project, that introduce and expand housing resources and opportunities to farm labor and colonias populations.

I have also given my support to the Legal Working Group for Colonias and Farmworker Populations. The Legal Working Group, a direct product of the Federal Interagency Partnership, consists of attorneys from 10 Federal departments and agencies who have jurisdiction over colonias and farmworker issues. The Legal Working Group works to address civil rights violations perpetrated on migrant and permanent farmworker populations as well as colonias residents. Residents of these communities face unique legal issues ranging from discrimination based on national origin to predatory lending and illegal land sales. The Legal Working Group was started to assist local community organizations—including legal aid groups—across the Nation address the unique needs of these marginalized populations. The goal of the Legal Working Group is to connect Federal, State, and local government agencies with community organizations so they can discuss and solve legal problems that impact farmworker populations in a timely manner. By working in a collaborative and coherent fashion, government agencies and the respective services they provide are more effective and responsive in addressing local problems.

Another effort that I enthusiastically support is the Department's Government Kiosk Project, which provides very low-income populations with useful and timely information. The Department of Education, Department of Labor, Internal Revenue Service, and Environmental Protection Agency have recently joined HUD in bringing information the public needs, right to them. These Departments are a part of the project's efforts to provide information in a user-friendly format, and that dispenses important and useful government information to citizens—particularly low-income residents and those who do not have ready access to the Internet. The Government Kiosks are located in visible, high traffic areas such as shopping malls and mass transit centers, which assist in delivering useful and critical information—in both English and Spanish languages—to underserved populations. Visitors can access information on how to buy a home, apply for student loans, make their homes safe from pests, save for retirement, and find out if they are eligible for a Federal income tax credit.

The Department is also responsible for conducting the National Fair Housing Policy/Training Conference. This conference provides another avenue for enhancing services to migrant and permanent farmworker communities and colonias residents. I know that many attendees found the information on predatory lending practices and persistent obstacles limiting equal access to housing very beneficial and insightful.

Question. Will you work closely with me and my staff and provide the support and technical assistance necessary to address barriers and find solutions needed to properly address this problem?

Answer. I am unequivocally committed to providing the necessary support and technical assistance required to alleviate existing barriers and develop sustainable housing and development solutions that introduce and expand affordable housing units to farm labor populations throughout the United States.

My commitment is illustrated in the recent phase one completion of a Geographic Information System Statewide Mapping effort that identifies communities utilizing HUD's HOME Investment Partnerships Program (HOME) and Community Development Block Grant (CDBG) funds. This map identifies specific farm labor housing projects that have recently been completed, or are currently under development. Utilizing this information, HUD will provide tailored services such as housing counseling and financial literacy education, to identified farm labor populations.

At my insistence HUD has also been providing needed technical assistance and funding to units of local government and non-profits providing services to farm labor populations in the Pacific Northwest, including the State of Washington. This assistance has led to the development of over 500 temporary or permanent housing units and related water and wastewater infrastructure systems.

The Department also provides assistance to areas with high concentrations of farm labor populations, such as the Yakima Valley area of Washington. One recent effort connects economic development projects with local and regional farm labor housing efforts. Subsequently, new farmworker housing is being developed while simultaneously expanding job creation opportunities for this population.

An additional benefit of this proactive activity is that HUD is now working with the Diocese of Yakima Housing Service and the Office of Rural Farmworker Housing to develop a needs assessment for the local farm labor population. The results of the assessment will provide a framework from which CDBG, HOME and other public funding resources will be pulled together to design and build affordable housing units, as well as introduce job creation opportunities for the farmworker population.

The Yakima Valley Needs Assessment project mirrors a similar project that HUD recently completed in Manatee County Florida. The Manatee County Florida Farmworker Needs Assessment was initiated to address unmet local needs and capitalize on existing assets and partnerships with local governments, nonprofit groups, faith-based organizations, and local housing providers. Due to the absence of farmworker data and statistics, local organizations were challenged to obtain funding that would address the deplorable living conditions of area farmworkers. In response, HUD funded the design and implementation of a survey instrument that collected local farmworker housing statistics, work conditions, income, area demographics, financial literacy levels, and health conditions.

The collected data has been analyzed and is having an enormous positive impact. Nonprofit and government entities are now able to accurately demonstrate the fundamental needs of the local farmworker community. A collateral benefit is that the survey has prompted local service providers to develop a farmworker profile, an outreach plan, and an action strategy from which to address identified needs.

As these examples and technical assistance projects illustrate, I know the value and importance technical assistance brings to communities that so desperately need affordable housing and economic development opportunities. I will continue to work and provide technical assistance and other resources that alleviate the plight of farm labor populations. I look forward to working with you and your staff.

Question. What are HUD's current authorities and activities related to farm labor housing?

Answer. The Department administers the Southwest Border Region Colonias and Migrant/Farmworker Initiative (SWBR Initiative), to help these distressed communities to address their respective needs. The SWBR Initiative is not a program and as such, does not have specific grant dollars, but works to coordinate HUD services and programs going to these communities. The SWBR Initiative also works to identify existing resources, and collaborate with Federal, State and local partners to improve the plight of colonias and farmworker communities. The mission of the SWBR Initiative is to improve the housing and living conditions of migrant and permanent farmworker communities located throughout the United States, and colonias located along the U.S.-Mexico border.

To maximize resources HUD staff routinely conducts joint workshop sessions that combine information on, and access to, several resources together, such as conducting sessions that consist of housing counseling, financial literacy education and other asset building resources.

Over the past few years HUD, working through the SWBR Initiative, has invested over \$120 million in farmworker communities and colonias through the Department's competitive and formula grant structures, as well as on-going program processes.

Under my direction, during the past few years, HUD has initiated a number of projects that address the needs of farmworkers and their families residing in the Pacific Northwest. HUD sponsored a Practitioners Conference entitled "Harvesting Hope for Our Communities—A Tri-State Practitioners' Conference" that was held in Yakima, Washington. The conference brought together nearly 300 attendees to not only discuss the challenges faced by farmworker communities, but also to develop useful and practical strategies, share techniques and methods, and formulate new partnerships to spur action and activities.

Recent HUD efforts include conducting the first annual Yakima Valley Homeownership Fair at the Sun Dome in Yakima, Washington. The fair attracted over 1,750 attendees and over 25 exhibitors. The fair was held in Yakima Valley, the agricultural center of Washington State and home of a large migrant and permanent farmworker population. Informational materials, and on-site workshops, were available in both English and Spanish languages.

With my support, HUD has also been proactive in outreach activities. In fact, only recently HUD staff participated in a bilingual (English and Spanish) radio broadcast (KDNA) in Granger, Washington that highlighted HUD's Federal Housing Authority home ownership information. The listening audience consists of over 25,000 Spanish-speaking daily listeners located in Central Washington and South Central Oregon. These areas consist of very large populations of migrant and permanent farmworkers.

This proactive activity also includes the recent distribution of HUD excess computers to various educational institutions located throughout the Yakima Valley of Washington. The recipient educational institutions have large populations of very low-income students that have no access to computers. Over 20 educational institutions, including rural communities with large farm labor populations, received over 125 excess HUD computers and related equipment.

Another proactive activity that I am happy to report on is the placement of a HUD government kiosk in Sunnyside, Washington. As I mentioned earlier, HUD's government kiosk provides and dispenses important and useful government information—such as how to buy a home, save for retirement, and eligibility for a Federal income tax credit—to citizens, particularly low-income residents and those who do not have ready access to the Internet. Information is accessible in both English and Spanish languages.

The placement of a government kiosk in Sunnyside, Washington is especially beneficial when one considers that Sunnyside has one of the largest concentrations of migrant and permanent farm labor populations in Washington State. The importance and utility of the government kiosk is demonstrated in the fact that this particular kiosk is the fourth active in the Nation, with a monthly average of nearly 900 hits a month.

At my insistence, HUD has also been actively engaged in expanding our partnerships with Community and Faith-Based organizations. Only recently, HUD staff met with 90 individuals representing faith and community-based organizations at a 2-day grant-writing workshop. The workshop took place at the Holy Family Activity Center, Diocese of Yakima and was conducted by HUD's Faith Based and Community Liaison. The session provided attendees with effective grant writing techniques and assisted in strengthening the capacity of emerging organizations to compete for HUD and other Federal grant opportunities.

An additional technical assistance workshop that also recently took place was entitled, "Making Connections through Housing and Economic Development." The workshop facilitated discussion and cultivated partnership opportunities between housing and economic development organizations, professionals and public agencies that provide a variety of services to the Yakima Valley farmworker population.

HUD has also been actively engaged in expanding the positive benefits of existing service providers. One example is HUD's assistance to a non-profit—La Clinica Self-Help Housing—based in Pasco, WA. La Clinica, has been in operation for the past 11 years, and is responsible for the development of 160 homes located in Benton, Franklin, Yakima, Grant and Adams County, Washington.

With HUD's assistance La Clinica has now started to work with several additional funding resources, including the U.S. Department of Agriculture Rural Development program, and HUD's Community Development Block Grant program, HOME Investment Partnerships program, and the Housing Counseling program. These efforts recently allowed La Clinica to dedicate 10 new homes to local farmworker families in Pasco, Washington.

My directions to staff have served as a catalyst for HUD staff to become actively and intimately engaged with local and regional efforts. This can be seen in HUD's recent participation in the Washington State Farmworker Housing Trust (WSFHT) Advisory Board. The WSFHT is a non-profit organization founded in 2003 to bring new resources to meet the need for decent and affordable farmworker housing in Washington. The Trust is a unique collaboration of growers, farmworker advocates, housing providers and community leaders.

To advance the objectives of the WSFHT, HUD recently provided technical assistance funds that were utilized to organize and facilitate the WSFHT Capacity Conference in Yakima, Washington a few months ago. Participants at the conference developed a plan that will focus on building capacity to produce and effectively manage farmworker housing in the State.

HUD's recent participation also includes providing assistance to the WSFHT Board that centered on how to design, structure and implement an effective needs assessment instrument. The WSFHT hopes to design and implement a farmworker needs assessment survey that will be used to define the magnitude and scope farmworker housing and living conditions and related needs in the State of Washington.

Question. Do you believe your agency is doing all that it can in this area?

Answer. As exemplified by my instructions and guidance to HUD staff, and subsequently by the proactive actions of HUD staff I believe that the Department is maximizing available resources and efforts to address the housing and living conditions of farm labor populations throughout the United States. As demonstrated by these actions I am firmly committed to ensuring that decent, safe and affordable housing is made available to migrant and permanent farm worker populations. My unyielding advocacy and support of HUD's Southwest Border Region Colonias and Migrant/Farmworker Initiative underscores the importance I place on introducing and expanding HUD services and programs to these marginalized populations. I am working to institutionalize HUD services and programs that benefit these communities so that they are not one-time successes.

The benefits of this focused and concerted effort can be seen in the investment of over \$120 million in the past few years that benefited migrant and permanent farmworker populations throughout the United States.

To further the efforts and critical work that the SWBR Initiative continues to undertake, I am reassigning personnel to the State of Washington whose task will be to continue to introduce and expand HUD services to migrant and seasonal farm labor populations located in the Pacific Northwest Region.

Through the Federal Interagency Partnership for Colonias and Migrant/Farmworker Communities, I will continue to support the identification of existing resources, and collaborate with Federal, State and local partners to improve the plight of these communities, as well as the collaborative joint-ventures, such as the Legal Working Group for Colonias and Farmworker Communities and HUD's government kiosk project.

During my tenure, HUD has made enormous advances to ensure housing and development efforts are made available to farm labor populations. I will continue to make available every resource so that the plight of these populations is alleviated to the fullest extent possible.

CONSORTIA

Question. Your agency has consistently encouraged public housing authorities to streamline their operations to reduce the demand for administrative funds. Many public housing authorities in Washington State participate in a consortium so that they can achieve economies of scale in their purchasing of services. However, efforts to form consortia like these have been frustrated by HUD's inability to fully implement the consortia provisions required by the 1998 Quality Housing and Work Responsibility Act (QHWRA). In the 6 years since this law was enacted, HUD has not yet made its data and regulatory systems compatible with joint filing by consortia. Why has the Department not yet fully implemented consortia provisions of QHWRA?

Answer. PHAs have always had the ability to form consortia for purchasing and contracting activities and the Department has encouraged that. Formation of consortia under Section 13 of QHWRA allows for PHAs to band together under a formal consortium agreement and subject to a joint PHA Plan filed with HUD for the administration of their public and assisted housing programs. Both types of consortia have been addressed in HUD's procurement handbook for Public and Indian Housing Authorities. HUD has not made its data and regulatory systems compatible with joint filing by consortia of all PHA reporting requirements because consortia are not legal entities HUD contracts with directly, which forms the foundation for all HUD

systems. Consortia do not meet the standards of a reporting entity. Financial statement reporting and audits are governed by HUD's Uniform Financial Reporting Standards (UFRS), which follow Generally Accepted Accounting Principles (GAAP) and Government Accounting Standards Board (GASB) Statement 14, which defines financial reporting entities. Following from this, HUD assesses individual PHA performance pursuant to the funding and regulatory contracts between both parties, and includes as components of the evaluation process individual PHA financial statements, audits, and the physical condition of contractually covered public housing units.

Question. For example, I understand that the Department has not yet enabled agencies to jointly file with HUD items like tenant-income data, Public Housing Authority Plans, and audits. If you are serious about encouraging PHAs to reduce the demand on administrative funds, shouldn't these long overdue technology upgrades be a very high priority for the agency?

Answer. PHAs can and do submit joint PHA Plans to HUD. The PHA Plan template used for submitting plans includes a consortia designation. HUD has also substantially streamlined annual PHA Plan contents for PHAs with less than 250 units, which represents a group very likely to also form consortia, and reduces administrative burdens. Joint filing of tenant data and audits is not possible for consortia because PHAs are legal entities that contract directly with HUD for funding under various Federal housing programs. PHAs are regulated under Annual Contributions Contracts, grant agreements, and other funding instruments that require PHA level reporting to HUD. Financial statement reporting and audits are governed by HUD's Uniform Financial Reporting Standards (UFRS), which follow Generally Accepted Accounting Principles (GAAP) and Government Accounting Standards Board (GASB) Statement 14. GASB Statement 14 defines financial reporting entities. Consortia are not legally created organizations and do not otherwise qualify as reporting entities, and thus joint filing of audits for consortia is not possible. Where HUD treats multiple PHAs as one entity for consolidated reporting purposes, it is because they are legally and organizationally consolidated into one PHA entity. They transferred their units, funding, contracts, physical assets, and program administration to a consolidated PHA, which could include a regional, metropolitan, State, or county PHA.

MOVING-TO-WORK DEMONSTRATION PROGRAM

Question. Mr. Secretary, three of the larger PHAs in my State—Seattle, King County, and Vancouver, participate in your "Moving to Work" demonstration program. This program helps ensure that low-income individuals will not be penalized by losing their tenant support as they struggle to transition off of public assistance. I understand that HUD has submitted legislation to the authorization committee to expand the number of PHAs that can participate in the Moving to Work program. If your legislation is not enacted, is there any risk that the PHAs currently participating in the program will have their participation terminated?

Answer. No. The proposed Moving-To-Work (MTW) provisions in the State and Local Housing Flexibility Act will not terminate current program participants. This legislation provides automatic 3-year extensions for those MTW agreements that expire in 2005 and 2006. PHAs have the opportunity to enter the program automatically with the enactment of the legislation. At the end of any expired agreement period under the MTW Demonstration, PHAs can opt into the MTW program as described in the legislation under the established eligibility provisions. All existing MTW agreements would be honored to the end of their term. If legislation is not enacted, MTW PHAs would have to seek extensions on an individual basis.

Question. Is there anything in your legislation that imposes new requirements on those PHAs that already participate in the program?

Answer. Yes. Section 302(h)(1) provides that a PHA's performance in the MTW Demonstration and in the MTW Program would be assessed under applicable assessment systems that evaluate a public housing agency's performance with respect to public housing and voucher programs. This means that a PHA in the MTW Demonstration would be assessed by the Public Housing Assessment System (PHAS) or the Section Eight Management Assessment Program (SEMAP) until January 1, 2008. Thereafter, the MTW PHA in the demonstration or in the program would be required to meet performance standards developed pursuant to Section 302(h)(2). In addition to the requirements of section 302(h)(1), Title III may or may not affect current MTW agencies depending on existing individual agreements. Housing agencies in the demonstration negotiated contracts that provided specific conditions and imposed requirements, some of which may be different from the requirement of the proposed program. Housing agencies that elect to join the MTW Program when their

contracts expire, or those that elect to opt out of the MTW Demonstration early and enter the MTW Program, will then be subject to the requirements of the program.

SECTION 8 VOUCHERS

Question. Mr. Secretary, we have heard from many housing groups that, during last year's consideration of the Appropriations bill, HUD understated the amount of funding that would be needed to maintain the same number of Section 8 vouchers that were active in 2004. As a result, the program was under-funded by roughly \$570 million and 80,000 vouchers have been lost. We have also been told that your fiscal year 2006 request will restore half or 40,000 of these vouchers. Are these figures accurate in your view?

Answer. No. HUD did not understate the amount of funding that would be needed to maintain the same number of vouchers that were needed based on the May through July 2004 reporting period. The fiscal year 2005 Appropriations Act provided a specific amount for the Housing Choice Voucher program to fund the voucher needs for that period and for the adjustments allowed for enhanced vouchers and the first time renewal of tenant protection vouchers and HOPE VI vouchers. As a result, the Department had to prorate downward the 2005 budgetary allocations to PHAs by approximately 4 percent. Our fiscal year 2006 Budget request seeks to restore the entire 4 percent proration reduction.

Question. Will the actual number of vouchers decline by 80,000 this year?

Answer. No. A recent analysis of actual costs and leasing levels per data submitted by PHAs to the Voucher Management System through April 2005 are very constant over the 12-month period ending April 30, 2005. The difference in vouchers leased for the period May through July 2004, compared to February through April 2005, is less than 3,000 vouchers.

Question. If not, what are your precise estimates for the number of vouchers that were funded in 2004 and 2005?

Answer. Actual vouchers leased and funded for calendar year 2004 were 2,024,553.

Based on the funding provided in the fiscal year 2005 Appropriations Act, the Department expects to fund approximately 1,980,000 vouchers in calendar year 2005.

Question. How many vouchers will be funded if we fully fund your request for 2006?

Answer. It is too early in the calendar year to estimate how many additional vouchers can be funded since only 4 months of data is available in 2005. Assuming the existing leasing levels and HAP costs can be sustained using the 2005 budgetary allocations, and existing inflation assumptions hold true, it is reasonable to conclude that an additional 40,000 to 50,000 families may be assisted.

Question. Based upon HUD's ongoing monitoring of rent burdens, can you tell me the percentage of families paying more than 30 percent of adjusted income for rent as a national average in fiscal year 2003 and fiscal year 2004? Can you tell me the current percentage?

Answer. Current percentages are as follows:

- Fiscal year 2003—68 percent;
- Fiscal year 2004—66 percent;
- Current—69 percent.

Under existing program requirements, new families and movers may elect to pay up to 40 percent of their income towards rent. For existing families in the program who chose not to move, there is no limitation on the percentage of their income they can pay towards rent.

Although the percentages provided above indicate that the number of families paying more than 30 percent of income ranges between 66 and 69 percent, more than 60 percent of those families' rent burden is between 30 and 35 percent of adjusted income. The average rent burden for all vouchers is approximately 39 percent and does not represent a significant increase in the 35 percent average rent burden measured in 1990.

Question. What percentage of families has a rent burden exceeding 40 percent of adjusted income?

Answer. The percentage of families in public housing who have a rent burden exceeding 40 percent of adjusted income is as follows:

- Fiscal year 2003—14 percent;
- Fiscal year 2004—16 percent;
- Current—18 percent.

Question. The Department's fiscal year 2005 voucher funding implementation notice States that HUD will reduce existing voucher payments reserves from the previous standard of 1 month's funding, to no more than 1 week's reserve level. Some

portion of this reduction was to be used to satisfy fiscal year 2005 rescission requirements.

Does the Department plan to recapture or reduce reserves for any agency below the 1-week level during fiscal year 2005?

Answer. It is not the Department's intention to reduce any PHA's reserves below the 1-week level during fiscal year 2005 or fiscal year 2006.

REUNIFICATION OF CHILDREN WITH THEIR PARENTS

Question. I understand that the Tenant protection Fund has a special designated program for family reunification. In fact, our Chairman, Senator Bond was instrumental in getting this program authorized. However, I understand further that no new vouchers have been issued for this program since fiscal year 2001 and historically HUD has made approximately 39,000 vouchers available for the family unification program. I also understand that it is up to each individual PHA to decide if these vouchers keep their identity after they expire. How many of the original 39,000 family unification vouchers are still used for that purpose and if you are under the authorized level, can PHAs move traditional vouchers into the family unification program?

Answer. PHAs that received Family Unification Program (FUP) vouchers were obligated to use those vouchers for that targeted population for 5 years. HUD awarded 3,920 FUP vouchers in fiscal year 2000 and 958 FUP vouchers in fiscal year 2001, so 4,878 vouchers are still required to be used for family unification purposes. PHAs that decide to voluntarily continue the FUP voucher program after the 5-year requirement is completed are not required to report those vouchers as FUP vouchers in HUD data collection systems. HUD therefore does not know the actual number of vouchers originally allocated for FUP that continue to be voluntarily used for this purpose.

Under the housing choice voucher program, PHAs may establish local selection preferences for admission to the program that reflect the local needs and priorities of the community. PHAs may use vouchers that were not originally allocated as FUP vouchers for family unification purposes by establishing a local selection preference for qualifying families.

Question. Why hasn't your agency requested or issued new vouchers to get more of these families reunited over the last 4 years?

Answer. PHAs currently have the ability to use their vouchers to promote family unification by establishing local preferences for admission to the regular voucher program for qualifying families. A special set-aside of vouchers is not necessary in order for PHAs to serve this particular population. The Housing Choice Voucher Program has grown into a complex, overly prescriptive program that is increasingly difficult to administer. The present program has separate rules for more than a dozen different types of vouchers. A major component of program reform and simplification is to allow local PHAs to decide how best to use vouchers to address the needs and priorities of their community, rather than to continue to dictate these decisions from Washington through a myriad of complicated boutique voucher programs.

Question. Is there any truth to the assertion that you have not issued new vouchers out of the Tenant Protection Fund because you want to leave that funding available for your proposed rescissions?

Answer. No. There is no truth to the assertion that HUD has not funded tenant protection voucher requirements. HUD has and is issuing new vouchers out of the Tenant Protection Fund for tenant protection assistance to assist families impacted by public housing relocation and replacement activities and conversion actions related to HUD's multifamily portfolio. As of June 9, 2005, HUD has allocated 16,211 new vouchers out of the tenant protection line item appropriated in the fiscal year 2005 Consolidated Appropriations Act.

Question. Do you intend to propose rescissions from the Tenant Protection fund for fiscal year 2005, or if we accept your proposal for fiscal year 2006?

Answer. The rescission language enacted under the Housing Certificate Fund gives the Department flexibility to take the rescission from any account within the Department. The Tenant Protection set-aside can certainly be subjected to the rescission if there are unobligated balances remaining under this set-aside. However, at this time there is no specific proposal to rescind Tenant Protection funds.

HOMELESSNESS

Question. Mr. Secretary, does HUD intend to provide a legislative proposal for the "Samaritan Initiative," and if so does it limit supportive services such as case management and would this have a negative impact because providers and communities

would not be able to fund the housing and supportive services necessary to achieve the goal of ending homelessness?

Answer. As presented in the 2006 Budget request, HUD proposes to consolidate its 3 competitive homeless grant programs into a single program. This new consolidated program will include the eligible activities similar to the Samaritan Initiative, which will focus on the chronically homeless, and will combine housing subsidies paired with quality case management. A key ingredient to the overall success of ending chronic homelessness is to effectively access mainstream healthcare, social services and employment resources so that HUD's limited homeless assistance funding can be increasingly devoted to housing.

HOPE VI

Question. Mr. Secretary, your budget proposes to eliminate all funding for the HOPE VI program next year, and you are also asking us to rescind every penny of the \$143 million that we appropriated for the program this year.

This program is designed to assist public housing agencies in demolishing their most dilapidated housing units and replacing them with new, safe and affordable units for mixed-income individuals. I understand that part of your agency's rationale for decimating the HOPE VI program is that you believe that the program has already achieved its intended goals.

Do you believe that we have already eradicated all of the dilapidated public housing units in America?

Answer. The Department has not had the opportunity to eradicate every unit of dilapidated public housing in America. However, HUD has met its goal to eliminate 100,000 units of the worst public housing through HOPE VI Revitalization and Demolition grants, as well as other funding and approval mechanisms. Since surpassing the goal to eliminate 100,000 units of severely distressed public housing by fiscal year 2003, HUD has continued its commitment of removing this housing from the public housing stock. Through fiscal year 2004, HUD had approved for demolition a cumulative total of 165,155 units and PHAs had completed demolition of 116,545 total units.

Since the Department has met this demolition goal, the HOPE VI program is no longer necessary. However, the Department recognizes that there is an estimated \$18 billion capital backlog in the public housing inventory. While there is clearly serious need for investment in the inventory, it is not clear how much of this backlog is represented by severely distressed units needing wholesale demolition and replacement as articulated by HOPE VI. Current definitions used by the Department to define severe distress were developed in response to a sub-set of the public housing inventory that by and large no longer exists i.e., severely distressed, super-block, high-rise, public housing developments with significant social problems in major cities like Cabrini Green and Robert Taylor Homes in Chicago. A new method for assessing severe distress, one that considers the nuances of today's public housing inventory and is more objective, should be developed before HUD funds additional wholesale revitalization of public housing communities.

In the interim, the needs of the remaining public housing inventory can be more appropriately met through other modernization and development programs operated by the Department e.g., the Capital Fund, Capital Fund Financing Program and Mixed-Finance development. The Department continues to encourage housing authorities in need of this assistance to submit project proposals to these programs. To date, the Department has approved over \$2.4 billion in transactions using the Capital Fund Financing Program, with approximately \$94 million in additional funds in the pipeline. Of the approved transactions, over \$254 million will be used for development activities.

Question. I understand that HUD wants to address the remaining dilapidated public housing units by finalizing regulations requiring all the public housing authorities to demolish their most dilapidated housing. That will be a huge undertaking.

Are you proposing to give the public housing agencies any additional resources to accomplish this massive goal of demolishing all dilapidated public housing?

Answer. The Quality Housing and Work Responsibility Act of 1998 (QHWRA) revised Section 202 for mandatory conversion, and added another possibility for removals by crafting a voluntary conversion option as well. More than 140,000 severely distressed housing have been demolished over the last 10 years. As a result, it is anticipated that mandatory conversions will affect the last remaining units that do not meet the minimal threshold conditions and the related formula cost test. The Department has requested additional vouchers to cover Mandatory conversion needs for fiscal year 2006. PHAs will be responsible for using their existing resources to

pay demolition and relocation costs as they do now under Section 18, Demolition and Disposition.

Question. Your budget is proposing that capital grants to the public housing authorities be reduced by over a quarter of a billion dollars or almost 10 percent next year. Some experts have observed that cuts in funding to help housing authorities maintain their units will mean that we will just create more dilapidated buildings that will be eligible for HOPE VI grants.

How do you respond to that assertion?

Answer. The administration's proposed budget provides sufficient funds to cover the accrual needs of Public Housing Authorities (PHAs). HUD commissioned a study of the capital needs of PHAs, which was released in 1998. That study identified an annual accrual of capital needs of approximately \$2 billion per year, as well as a backlog of capital needs. The administration's proposed budget would provide Capital Fund Program (CFP) monies in excess of the annual accrual need, allowing PHAs to meet their accrual capital needs, as well as enabling them to address some of their backlog capital needs.

Further, activities such as the demolition and disposition of public housing projects have resulted in the demolition of more than 100,000 units of public housing since the preparation of the capital needs report in 1998. The vast majority of these units were distressed and therefore were the most expensive to maintain. This reduction in the number of public housing units has served to reduce both the backlog of physical needs as well as the annual accrual. It should also be noted that replacement units added to the inventory since the preparation of the report are new and therefore less expensive to maintain.

In addition to annual appropriations, PHAs now are able to access the private financial markets and unlock the value of their portfolios. HUD has been implementing the Capital Fund Financing Program (CFFP), which was authorized under the Quality Housing and Work Responsibility Act of 1998 (QHWRA). Through the CFFP, PHAs leverage funds from the private market via a pledge of their future CFP grants. HUD has approved CFFP Proposals in excess of over \$2.4 billion, involving over 102 PHAs in more than 40 transactions. Funds derived from the CFFP have enabled PHAs participating in the program to address a significant amount of backlog physical needs.

In the future, HUD looks forward to expanding the CFFP to permit PHAs to use the Federal Operating Fund in the same manner, and expand the use of mortgages to raise additional private capital.

PROPOSED SECTION 811 CUT

Question. Mr. Secretary, why is Section 811 Housing for Persons with Disabilities being singled out for a 50 percent cut in this budget including the elimination of all funding for new production and rehabilitation of accessible housing units?

Answer. The cut in the Section 811 Budget was one of several difficult decisions that the Department had to make this year. As you know, significant cuts and changes were also proposed for other programs, such as the Community Development Block Grant program.

Question. This proposal to eliminate the project-based side of Section 811 appears to be completely at odds with the administration's stated goal of promoting community-based alternatives to costly and ineffective institutional settings for people with severe disabilities.

Why is HUD seeking to cut Section 811 funding by 50 percent at a time when HHS has been working so hard to promote independence and community integration for people with disabilities through the President's New Freedom Initiative?

Answer. The Department will continue to support the President's New Freedom Initiative by supporting and fully funding the 40,000 units that are supported by Section 811 funds.

Question. How will HUD ensure that low-income people with disabilities continue to have access to affordable housing in light of the fact that rental subsidies alone are not sufficient because rental units are not available in most communities?

Answer. The Department will continue to support the 200,000 units that are occupied by persons with disabilities in various HUD programs. As you know, this includes 40,000 units that are supported by the Section 811 program. These units are located in many communities throughout the United States.

OPERATING FUND NEGOTIATED RULE

Question. The cost of implementing the recommendations of the Operating Fund rule negotiated between HUD and stakeholders was nearly \$4 billion in 2003 dollars. In addition, agencies will incur transition costs for the conversion to property-

based rather than agency-wide accounting and management required by the rule. Your budget requests just \$3.4 billion for the operating fund for fiscal year 2006. Your department arrived at a negotiated agreement with stakeholders on this rule in June. Did funding needs of the negotiated rule figure into your budget request?

Answer. The issue of "transition costs" was discussed during negotiated rule-making but was not agreed to in the final Agreement. Hence, the fiscal year 2006 Budget request does not include any funding for transition costs. However, that PHAs currently have approximately \$2.8 billion in operating reserves that they can use for transition costs.

Question. As I understand it, the Operating Fund proposed rule recently sent to Congress is materially different than the rule negotiated with public housing stakeholders last June.

Isn't changing the terms of the rule after you have arrived at a negotiated position a fundamental breach of this agreement?

Answer. Consistent with requirements under Executive Order 12866 entitled "Regulatory Planning and Review" and other rulemaking authorities, the negotiated rule underwent further HUD and Executive Branch reviews prior to publication. These changes were necessary in order to incorporate changes reflective of budget and policy priorities.

Question. The Department released data regarding the impact of the previously-negotiated rule on individual agencies. When do you plan to release agency-level data regarding the impact of you proposed rule? I think this would be key to a productive comment period on the proposed rule.

Answer. Impacts of the proposed rule on PHAs were presented to the various public housing trade associations and other representatives and posted on REAC's Operating Subsidiary web-site: <http://www.hud.gov/offices/pih>.

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

Question. The President's budget proposes a 5 percent cut in fiscal year 2006 funding despite the acknowledgment that two new jurisdictions will become eligible for formula funding, bringing the total number of jurisdictions eligible for formula funding to 125. The proposed 2006 funding levels of \$268 million would return HOPWA to a funding level between the 2001 (\$257.4 million) and 2002 (\$277.4 million) when there were only 103 and 107 jurisdictions, respectively. This means that the current HOPWA program must support more grantees with less money than ever before. Why is the Department withdrawing necessary funds while increasing eligible jurisdictions?

Answer. The Department's fiscal year 2006 Budget request of \$268 million for the Housing Opportunities for Persons with AIDS (HOPWA) program will provide continued housing support for the most vulnerable individuals and their families living with HIV/AIDS. The funding request is approximately at the same level as recent program expenditure patterns (the most recent 3-year average was \$274 million for all HOPWA grantees). HUD estimates that HOPWA housing subsidies and support in community residences and through direct rental assistance will enable over 67,000 households to reduce their risks of homelessness and improve their access to healthcare and other support. In addition, HOPWA grantees have shown good success in leveraging other resources to operate these housing programs by committing State, local, and private resources to their community efforts. On a technical note, the qualification of new formula recipients has a minimum effect on formula distributions. This is because they qualify for the smallest allocations, (generally around \$350,000) and because the newly qualifying cities are in metropolitan areas that are likely to have been included in a grant to the State in a prior fiscal year. This latter change would have no net fiscal impact but would change the entity responsible for managing these grant activities. The correct number of HOPWA formula eligible communities in fiscal year 2006 will be 122. This number is being updated based on the use of AIDS surveillance data recently obtained from the Centers for Disease Control and Prevention (CDC). HUD has determined that the number of formula recipients in 2006 will only increase by one additional recipient (Palm Bay, Florida) as this metropolitan area meets the statutory eligibility requirements with a population of more than 500,000 persons and a cumulative number of cases of AIDS of greater than 1,500 cases of AIDS. Further, this area had previously been included in formula funding to the State of Florida, and as such, no significant net effect will occur, as the amount of funds allocated to the State will be proportionately smaller. Also, in fiscal year 2005, one newly designated recipient (Lakeland, Florida) made use of the authority provided in a new administrative provision to the HOPWA appropriations act that with the agreement of their State, allows the

State to continue to serve as the grantee for managing the HOPWA program in their metropolitan area. The required data from CDC involves the use of cumulative cases of AIDS in making these determinations, which includes a significant number of persons who have died due to AIDS. In 1999, HUD recommended an updated formula based on a CDC estimate of persons living with AIDS adjusted for area housing costs. The need to update the formula was further identified in the recent PART review for this program and a more accurate distribution could be based on a CDC report for persons living with AIDS and area housing costs.

Question. HUD is in the process of foreclosing on Lawndale Restoration, 1,240 project-based Section 8 apartments in Chicago's Lawndale Community. In the past, project-based vouchers would have been maintained after foreclosure. However, HUD is not offering that possibility, and is instead offering tenants Housing Choice Vouchers. If all qualifying tenants receive Housing Choice Vouchers, tenants of Lawndale Restoration will comprise a group that is 25 percent of the tenants who have been relocated from the Chicago Housing Authority during the past 5 years under its Plan for Transformation.

HUD is not offering other more flexible approaches that take into consideration whether project-based assistance, Housing Choice Vouchers or a combination of the two would be more appropriate rental assistance for this property. Why?

Answer. Over the last several years, the Department has not offered a project-based Section 8 contract after foreclosure. The Department believes that residents want flexibility, and the option to relocate if they so choose. The housing choice voucher gives residents that ability. In the case of the Lawndale project, the Department is aware of residents that have indicated their desire to relocate and there are some residents who want to remain at the project.

Although the Department will be issuing vouchers to eligible residents, no resident will be required to leave the project if they desire to stay. If a resident who desires to move from the development is unable to find other housing, they will always have their current housing available to them. If a resident decides to move permanently from the complex, it is because they desire to do so and not because of the foreclosure action.

Question. Some studies have indicated that 15 percent of voucher holders in Chicago are unable to sign a lease within 6 months that they have to find an apartment. Given the saturation in Chicago, explain how an additional thousand families from Lawndale Restoration will impact the housing market in Chicago?

Answer. The Department engaged a contractor to perform a market study in Chicago last year. The purpose of the study was to determine whether the rental market in Chicago could absorb the number of families projected to be relocated from public housing to private sector housing (assisted by the Housing Choice Voucher program) as a result of redevelopment activity at the Chicago Housing Authority. The market study concluded that there is an ample supply of vacant affordable private sector housing to absorb the families projected to be housed in private sector housing. The market study estimated that there would be 40,000 affordable vacant units in the local rental market annually. Based on the market study, the Department believes that the private market can absorb the families that would be impacted by the Lawndale restoration.

Question. Will these families be able to find decent housing in Chicago?

Answer. The Department engaged a contractor to perform a market study in Chicago last year. The purpose of the study was to determine whether the rental market in Chicago could absorb the number of families projected to be relocated from public housing to private sector housing (assisted by the Housing Choice Voucher Program) as a result of redevelopment activity at the Chicago Housing Authority. The market study concluded that there is an ample supply of vacant affordable private sector housing to absorb the families projected to be housed in private sector housing. The market study estimated that there would be 40,000 affordable vacant units in the local rental market annually. Based on the market study, the Department believes that the private market can absorb the families that would be impacted by the Lawndale restoration.

Question. Beyond the Housing Choice Vouchers, will HUD assist these families in finding housing? If so, how?

Answer. The Department has already provided relocation assistance (including the costs to move, transportation to find alternate housing, housing counseling, etc.) to the 180 residents who were required to move from three of the buildings currently being demolished. HUD is also providing the same relocation assistance to 35 residents of another building in the complex that has severe structural problems.

For the remaining buildings, the Department is not requiring the residents to relocate and therefore there will be no other assistance provided except for the housing choice voucher. The purchasers of the buildings will be required to provide relo-

cation assistance while they make the necessary repairs to the buildings if the residents have to be relocated during construction. If a resident decides to move permanently from the complex, it is because they desire to do so and not because of governmental action and no government relocation assistance to those residents will be provided.

Question. On March 10, 2005, I sent a letter to HUD requesting that the Department reconsider HUD's decision to deny the Kankakee County Housing Authority funding for its entire voucher allotment. Please update me on the status of this request.

Answer. The Senator's request on behalf of the Kankakee County Housing Authority (KCHA) concerned HUD's denial of a request from that agency that HUD adjust the leasing figures used to calculate KCHA's calendar year 2005 voucher program renewal funding. As background, in December 2004, HUD provided to each Housing Authority (HA) the leasing and cost information, based on each HA's prior submissions, that HUD intended to use as the basis for calculating each HA's calendar year 2005 funding for voucher program renewals. Each HA was given the opportunity to request an adjustment of any data that was not accurate or that qualified for adjustment under the terms of the fiscal year 2005 Appropriations Act. KCHA responded to that information and requested that HUD adjust its leasing numbers to include a number of vouchers that had been provided to KCHA in a tenant protection action in August, 2001, but which were not yet under lease during the period HUD was required to use to calculate calendar year 2005 funding. KCHA's request was denied because the vouchers provided to KCHA in 2001 had been in their inventory for a sufficient period of time that they should have been under lease by the time period used to calculate the calendar year 2005 funding, which was May through July of 2004. The fiscal year 2005 Appropriations Act provided that HUD make necessary adjustments for costs related to first time renewals of tenant protection vouchers. At the time of KCHA's request, the vouchers in question had been renewed three times; as a result, KCHA was not eligible for an adjustment to their leasing numbers.

SUBCOMMITTEE RECESS

Senator MURRAY. Well, thank you very much, Senator Leahy. And I agree with you and appreciate your words today.

This subcommittee will stand in recess until Thursday, April 21, when we will take the testimony from OMB Director Bolten. And I can assure you we will be talking about the HUD budget among other things.

[Whereupon, at 11:05 a.m., Thursday, April 14, the subcommittee was recessed, to reconvene subject to the call of the Chair.]