OVERSIGHT HEARING ON THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES AND INTERGOVERNMENTAL RELATIONS

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

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CONTENTS

FEBRUARY 13, 1995

	Page
Hearing held in Washington, DC	1
Statement of:	
Cisneros, Henry G., Secretary, Department of Housing and Urban Development	5
Letters, statements, etc., submitted for the record by:	
Cisneros, Henry G., Secretary, Department of Housing and Urban Development, prepared statement of	12
Collins, Hon. Cardiss, a Representative in Congress from the State of Illinois, prepared statement of	3
Shays, Hon. Christopher, a Representative in Congress from the State of Connecticut, prepared statement of	2
Towns, Hon. Edolphus, a Representative in Congress from the State of New York, prepared statement of	4

FEBRUARY 22, 1995

Hearing held in Washington, DC	43
Statement of:	
Gaffney, Susan, Inspector General, Department of Health and Human Services, accompanied by: Chris Greer, Assistant Inspector General for Audit, Department of Health and Human Services; and Judy A. England-Joseph, Director, Housing and Urban Development Issues, Resources, Community, and Economic Development Division, General Accounting Office, accompanied by: Dennis Fricke, Assistant Director Resources, Community and Economic Development Division, General Accounting Office	45
Weicher, John C., senior fellow, Hudson Institute, Washington, DC; Vincent Lane, chairman, Chicago Housing Authority, Chicago, IL; and Cushing N. Dolbeare, consultant on housing and public policy, National Low Income Housing Coalition, Washington, DC	83
Letters, statements, etc., submitted for the record by:	
Dolbeare, Cushing N., consultant on housing and public policy, National Low Income Housing Coalition, Washington, DC, prepared statement of	103
England-Joseph, Judy A., Director, Housing and Urban Development Issues, Resources, Community, and Economic Development Division, General Accounting Office, prepared statement of	62
Gaffney, Susan, Inspector General, Department of Health and Human Services, prepared statement of	49
Lane, Vincent, chairman, Chicago Housing Authority, Chicago, IL, prepared statement of	96
Shays, Hon. Christopher, a Representative in Congress from the State of Connecticut, prepared statement of	44
Weicher, John C., senior fellow, Hudson Institute, Washington, DC, prepared statement of	87

OVERSIGHT HEARING ON THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT—DAY ONE

MONDAY, FEBRUARY 13, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HUMAN RESOURCES AND
INTERGOVERNMENTAL AFFAIRS,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:05 p.m., in room 2154, Rayburn House Office Building, Hon. Christopher Shays (chairman) presiding.

Present: Representatives Shays, Morella, Chrysler, Scarborough, Collins of Illinois, Towns, Fattah, and Peterson.

Staff present: Lawrence Halloran, staff director and counsel; Damaris Greatorex, professional staff; Tom Costa, clerk; Ronald Stroman, minority deputy staff director; and Cheryl Phelps, minority professional staff.

Mr. SHAYS. The hearing will come to order. We have a quorum. I welcome the members who are here now. We will get started, and I'd like to say before we call our first and only witness today that this is the first of many, many hearings that our committee will be holding.

We hope to start on a timely basis. We'll give about 5 minutes, and then we'll usually start. We hope to be done, and will be done, before 3 o'clock today. We've promised the Secretary and also the committee chairman and ranking member that we will be able to conduct our committee work.

So what I would like to do is swear in our Secretary, and then I will take opening statements from those who would like to give opening statements. Mr. Secretary, it's wonderful to have you here today.

[Witness sworn.]

Mr. SHAYS. Thank you very much. I'd like to point out for those who are here that we will swear in everyone who testifies, and that will be the practice of the committee.

Mr. Secretary, it is wonderful to have you here today. The purpose of our getting together is for you to talk about the mission of HUD as briefly as you would like, to talk about where you think you are having some real successes and where you think you are having your challenges, and most importantly, to talk about the plans that you have on reorganization.

I note that you are one of the few secretaries that has weighed in very heavily in trying to help this Congress and the White House look to see how we can reorganize our departments; make them leaner and more efficient.

I am going to be submitting my full testimony for the record and I welcome both the ranking member of the committee and the ranking member of this subcommittee to do the same. I'd ask the ranking member of the committee if she would like to make a statement. We would welcome that.

[The prepared statement of Hon. Christopher Shays follows:]

PREPARED STATEMENT OF HON. CHRISTOPHER SHAYS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

This is the first oversight hearing to be held by the Subcommittee on Human Resources and Intergovernmental Relations in the 104th Congress. The Subcommittee today embarks upon its goal of fully exercising its oversight responsibilities in a strong, urgent and thoughtful manner.

In this broadened effort, the Subcommittee will conduct systematic and frequent oversight proceedings that will closely examine the mission, management, plans, programs, and opportunities for cost savings in the departments and agencies of the Federal Government under our jurisdiction. We will begin with the five major cabinet departments: Housing and Urban Development; Health and Human Services; Education; Labor; and Veterans Affairs.

The essential component of our deliberations will be the concerns, criticisms and recommendations of a variety of organizations and individuals such as the General Accounting Office, Congressional Budget Office, Inspectors General and other experts from the public and private sectors. We will also work closely with state and local government to assess the inter-governmental impact of federal programs and to discuss what activities now at the national level can be done more effectively closer to home.

Today we begin our oversight process by discussing the mission of the Department of Housing and Urban Development in order to begin to identify major opportunities for cost reduction, improved efficiency, and needed reform. As we understand HUD's current mission, we will be able to deal with such questions as: Has the agency strayed from its original mission? Are there overlaps between the current mission of HUD and other agencies? Is HUD capable of carrying out its mission with the organizational structure and management systems in place?

I want to make it clear as we begin that we want to know what HUD is doing right as well as what HUD might be doing wrong.

Secretary Henry Cisneros has graciously accepted our invitation to come before this Subcommittee today to help us begin our deliberations. I want to express my appreciation for his time and views. His personal testimony will play an important role in the Subcommittee's ability to perform its oversight duties in a constructive and effective manner.

Mrs. COLLINS. Thank you very much, Mr. Chairman. Let me begin by saying that no matter how finely we crunch the numbers and no matter how deeply entrenched we become in programmatic prose that what we're really deciding here is whether some family will have a roof over their head and whether some neighborhood will again begin to prosper. It just seems to me that we cannot overlook that fact.

For 30 years, HUD has served as the only Federal agency that's been responsible for housing, community development and fair housing needs of millions of Americans. That is particularly true in my district where I have, roughly, 67 percent of all the Chicago Housing Authority units.

So I think that what we have to be very careful of is to make sure that we don't fail to recognize that, as the bureaucracy has grown, in many ways it has become ineffective.

But we have to also know that because of the Secretary's efforts, the reinvention, if you will, or the cutting out the fat in HUD is something that he's already proposed to do and has a blueprint for. It's certainly something that we want to see.

We know that HUD is vitally important to the city of Chicago in very many ways, and we hope that this can be done and will be done in the way that will be beneficial to all the people who need housing in every area, not just in the Chicago area.

And I yield back the balance of my time. I thank you, Mr. Chairman, for permitting me to have this opportunity to speak.

Mr. SHAYS. You're welcome. It's nice to have you here, and I'd also ask the ranking member, Mr. Towns, if he has a statement he'd like to insert into the record.

Mrs. COLLINS. Before so doing, may I ask unanimous consent that my entire statement be made a part of the record?

Mr. SHAYS. It certainly will, and for the record, all statements will be for the record.

Mrs. COLLINS. Thank you. Thank you for yielding.

[The prepared statement of Hon. Cardiss Collins follows:]

PREPARED STATEMENT OF HON. CARDISS COLLINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Let me begin by reminding my esteemed colleagues that no matter how finely we crunch the numbers, and no matter how deeply entrenched we become in the programmatic prose, what we are really deciding here is whether some family will have a roof over their head. and whether some neighborhood will again prosper.

For thirty years, the Department of Housing and Urban Development has served as the only Federal agency responsive to the housing, community development, and fair housing needs of millions of Americans. Yes, it has grown wasteful, overly bureaucratic, and in many ways, ineffective. But let's not pretend that because this agency and its mandate have become cumbersome it no longer has a vital role to play in this society.

67% of Chicago's public housing is in my district. Cabrini Green is in my district. A January 1995 study by Chicago's Roosevelt University found that nine of the ten poorest neighborhoods in the United States are in Chicago's public housing developments. Mr. Chairman and Mr. Secretary, I know, better than most, about the failures of Federal housing policies as implemented by the Department of Housing and Urban Development. I know, better than most, about the blight of whole city blocks of uninhabitable buildings, and the degradation of housing projects plagued with homicide, drug-related crime, and vandalism.

The people I am elected to represent are on the frontlines, and they will be directly affected by what is decided here. So I am not here to do callous numbers manipulation and data analysis. I am here to see that what action we take is fair and humane, as well as fiscally sound. There must be real improvements in the delivery of services, not just dollars saved.

Mr. Secretary, I am pleased to join the Chairman and ranking Member of this Subcommittee in welcoming you before this body. The Administration's reinvention strategy represents a meaningful effort to address the alarming budget and management problems challenging your Department. Clearly, if HUD is to survive these crises, dramatic steps must be taken. I am anxious to learn in greater detail how you propose to implement this strategy. I look forward to receiving your testimony regarding the future of this critical agency.

I thank you, Chairman Shays, for scheduling this hearing which I hope will be the beginning of a careful, compassionate, and balanced review of the Department of Housing and Urban Development.

Mr. TOWNS. Thank you very much. Mr. Chairman, let me thank you, first of all, for holding this hearing. I think that it's very timely and something that we need to do to be able to make the transition that we have to make in order to make certain that we continue to provide the services that are needed in our communities.

However, I must say I have some sensitivity to the fact that this administration, I'm talking about the HUD administration, has been very involved, in terms of the community already and has gotten the religious community, in particular, involved in terms of providing housing. It made some folks become aware of the fact that we all have an obligation, a responsibility, and we're in this together. So I would hope that whatever we decide to do here, whatever the final product is, that there is still that kind of sensitivity to involving people, especially the religious community.

I think they can continue to provide great services, and shelter is a basic need, a human right. As we visit this issue, let us remember that as caretakers of the public good, our first commitment should be to that ideal, that every citizen deserves a place called home. That's important.

Let me say I welcome today's hearing as an important first opportunity to consider the administration's strategy for restructuring and revitalizing HUD, which I welcome.

And Mr. Secretary, I have reviewed the reinvention blueprint and await with interest your views on several aspects of this proposal. I must admit that I think it's very well thought out, and I was impressed with what I read. At this time I yield back, Mr. Chairman.

[The prepared statement of Hon. Edolphus Towns follows:]

PREPARED STATEMENT OF HON. EDOLPHUS TOWNS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, I commend your leadership in convening this hearing and what I understand will be subsequent meetings regarding the Department of Housing and Urban Development and its future operations. I look forward to fully participating throughout these oversight activities and hope that we will see meaningful progress in the delivery of critical housing and community development services to those in need.

What the Department of Housing and Urban Development should be is the embodiment of our Federal commitment to the survival of our urban communities and the prosperity of our cities. Over the past thirty years, millions of Americans have benefitted from HUD's efforts to act out that commitment: HUD has provided public housing for over 7 million people, financed or refinanced home loans for 23 million homeowners, provided rental assistance for 6.5 million households, and protected the rights of countless to fair housing and equal opportunity. Unfortunately, over the course of those same 30 years HUD has also become the bureaucratic equivalent of the *Titanic*, costly, fully loaded, and headed for fiscal disaster.

I do not agree, however, with what may be the sentiment of some here today—that we abandon ship and turn our backs on the millions of Americans who continue to rely on HUD's help. There exists no other Federal effort to undertake HUD's monumental mission. And if we abandon HUD, we just as surely abandon our major metropolitan areas and the people who live there.

Shelter is a basic need, a human right, and a national ideal. As we visit this issue, let us remember that as caretakers of the public good, our first commitment should be to that ideal: that every citizen deserves a place to call home.

I welcome today's hearing as an important first opportunity to consider the administrations's strategy for restructuring and revitalizing HUD. Mr. Secretary, I have reviewed the reinvention blueprint and await with interest your views on several aspects of this proposal.

Mr. SHAYS. Thank you. I welcome Mr. Scarborough. Do you have any testimony you'd like to share?

Mr. SCARBOROUGH. No, sir, not at this time.

Mr. SHAYS. And Mr. Fattah is a member of our committee, and I welcome you, sir.

Mr. Fattah, do you have any statement?

Mr. FATTAH. No.

Mr. SHAYS. OK. And we also have Mr. Peterson, who was the chairman of the HUD portion of this committee before it was combined. And Mr. Peterson, we're delighted to have you here. You have had an extensive interest in this area, and it's wonderful to have your expertise.

Mr. Secretary, I'm just going to reiterate again that we're delighted you're here. You've weighed in on the whole issue of reorganization. You've taken a department that has many challenges, and I know you are working very hard to straighten those challenges out.

I want to assure you that both sides of the aisle, I think, have an open mind about your proposal and will be treating it very seriously when we do consider the issue of how we reorganize. So the floor is yours, and we welcome your testimony.

STATEMENT OF HENRY G. CISNEROS, SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. CISNEROS. Mr. Chairman, members of the committee, thank you very much for allowing me to come and testify before you. I come before you to describe a proposal for change for the Department of Housing and Urban Development.

It is a department that has been, for a number of years, severely troubled. The country is all too familiar with the legacy of scandal and corruptions that characterized the Section 8 Project Base program in the 1980's and some of the difficulties that we confront even today in trying to assure that landlords do not get excessive subsidies for the quality of the housing that they're providing.

As we have approached this task over the last several years, we have confronted any number of problems, but it has been clear that what is needed is simplification, more authority to local communities and more effectiveness in the operation of these programs.

So for the last couple of years, we have tried at every juncture, in legislation, in management practices, in budgeting, to follow those maxims. We want to put more emphasis on what people can do in communities, as opposed to what we will do top down from the Federal Government. We want to focus on the housing as a starting place for transitions in life, as opposed to being an ending place, and that we need to reorganize the department itself.

With your permission, what I'd like to do is submit my testimony for the record and then share a shorter amount of time with you than would be required to read the statement, and instead walk through a series of charts that describe the logic of the three big steps in the reinvention that we're proposing.

The first element of our reinvention—and let me say there are three; first, to consolidate some 60-odd categorical programs to three over the next several years; second, to transform FHA, the Federal Housing Administration, from a Government bureau to a Government corporation; and third, to transform public housing as we know it in the country today. That is the most sweeping, the most profound of the changes that we're proposing.

Let me begin with the consolidation. What you see in the chart is a listing of some 60-odd current major programs.

You see programs for public housing, for elimination of drugs and crime efforts, family self-sufficiency, programs related to community economic strategies, production programs for nonprofit production, homes programs, specialized programs for persons with AIDS and other disabilities.

In place of that lineup of some 60-odd programs, we propose in 1996 going to eight funds immediately and eventually to three.

Now, this is a lot more than just consolidation for its own sake. There are principles involved here. One of them is that it requires a greater trust of communities because if we're going to substitute the role of Federal bureaucrats in overseeing individual programs, what can be done in communities requires a significant leap of trust.

And the right place to do planning is at the local level. It is possible to produce a plan at the local level with HUD involvement that sets out what the priorities for a community ought to be and then allows local officials, nonprofits, community-based organizations and others to run programs more flexibly out of comprehensive funds, rather than HUD stipulating, micromanaging every aspect of a program as we've been doing in some 60 cases.

Now let's go forward through the next chart and let me describe four of these eight funds in the first part of my presentation.

You see, for example, the consolidation of all of the programs that involve production. These are supply side production programs used primarily by communities and nonprofits but also increasingly by profit-making joint ventures built around the home program.

You see the consolidation of some funds that have heretofore been very specific and run out of Washington, like the Elderly Housing Program and the Disabled Housing Program, and the consolidation of all of those programs to be used at the community level.

The result will be substantial more money for housing production at the level of cities and community level, because instead of people having to apply for an Elderly Housing Program, that money will be going to the community in a performance grant.

That's an indication of what we would do, and we would expect that the formula for distribution would be, roughly, the formula that characterizes the home program today, which is 60 percent to entitlement cities, 40 percent to State governments for allocation to smaller communities.

The next chart describes a fund to be known as the Community Opportunity Fund. It is an expansion of the existing Community Development Block Grant Program, and you can see that that rises from some $4.6 billion last year, steadily rising program, one of our most successful, most popular programs.

It is the precursor, if you will, of all that we expect to do in this arena. Those of you who have been involved at State and local level know the strength with which the mayors and local officials really utilize and respect the Community Development Block Grant Program.

The distribution formula for this will be 70 percent to entitlement cities and 30 percent to States for distribution to what is called the balance of State.

The next chart describes the Homeless Assistance Fund. This is something that we would have done in our 1994 legislation. We were seeking to, under the 1994 Housing Act, block up the so-called McKinney Programs.

To date, when people apply for homeless funds, they apply either for shelter or for supportive housing or for drug addiction and substance abuse programs or for permanent housing.

What we're proposing, then, is that they have the option to work with the community to respond to homeless needs at the local level in the comprehensive way that we know that these problems occur.

It facilitates the so-called continuum of care strategy that we believe ranges from emergency shelter, outreach, treatment, transitional housing, and permanent housing, all of the elements of what ought to be in a local homeless strategy.

And the fourth of these charts describes a program called Housing Opportunities for Persons with AIDS. It will remain in place. It has been effective the last number of years, and we expect to continue to refine it in the next several years before we transition to the eventual blocking-up of it into the three funds.

Now, Bruce, if I may, let me ask you to go back to the very first chart that describes, for just a second, so it's possible to get a larger perspective of how—Bruce Katz is the chief of staff at our department, and one of his many skills is turning charts.

Mr. SHAYS. Are these competitive grants?

Mr. CISNEROS. Many of them have been competitive. They will be going to a formula-based block grant approach, only we distinguish them from block grants in that we call them performance grants.

This is not intended to be a check-writing operation, but rather to set performance standards with communities based on their own plans for housing needs in the community, and then the money will be funded with a bonus or a reward or an incentive system.

Communities get more based upon their performance. So it's not just a check-writing sort of computer function but it has adherence to some larger national objectives.

As I said, for perspectives sake, I've walked through four of these, the Community Opportunity Fund—Bruce, you might point at that in the 1996 column—Community Opportunity Fund, Affordable Housing Fund, Homeless Assistance Fund, and Housing for Persons with AIDS. They are further collapsed in the out years until we achieve three large block grant or performance grant funds for communities. Again, this may sound as simple as just consolidating, but there is a lot more here.

What's involved here is substituting a bureaucracy that must receive applications, put out nofas, review applications, decide on them and approve and then micromanage them and substituting for that a new relationship with local governments, not a check-writing relationship but one in which we think certain national objectives, like income targeting, which these funds have been, assistance to persons with special vulnerabilities—the disabled and the elderly and the homeless must continue to be addressed.

And clearly in this, we do not want to lose adherence to bona fide national objectives like fair housing and civil rights.

So it's more than just a check writing. There is enormative dimension here. But the net result should be that communities do better.

What you see here is a chart that describes how much money, what percentage of our funds will go to local communities. What you see is that previously about 33 percent of funding went to local communities. Under this plan, 46 percent of our total budget will go to local communities because money that was heretofore going in direct application form competitively will go under a formula strategy. So the amount of money that communities will get is up.

You see the orange to the red is CDBG growing to the Community Opportunity Fund. The green to the blue is our present Home Program growing into the new Affordable Housing Fund, and then the homeless programs are transitioning. So the net effect is substantially more money.

The next chart is the top 25 cities in the United States in size as against the money that they've received in the system to date and the money that they will receive in 1996. You see dollars for New York City from $378 million received directly by the city government to 562.

Again, in the interest of full disclosure and, sort of, truth in advertising, that doesn't mean that New York City, as a community, received only 378. It means that the city government received only 378.

Others of it was going to nonprofits and other places. Now it's going to be consolidated and goes to the city government. The city government's control over housing strategies will increase to about 562.

We can and with your assistance we will write in provisions, for example, that there ought to be set-asides for not profits so we make sure we don't throw out the excellent work of the network of nonprofits that exists in the country, because I know some of you may have worries that going to the city government just trades one kind of oversight for another kind of oversight.

But this is in the interest of devolution and in the interest of everything we've heard that the Congress wants.

The next chart describes similar increases in funding available to the States as a result of this blocking-up process, the 10 largest States, the 5 smallest States. You see indications of how the funding will occur.

This is the consolidation of a very important part of our plan, the consolidation of all of our certificates. This is Section 8 and all of our various certificate programs into one very large certificate program.

We'll put that aside for just a moment and come back to it, because I want to describe to you the second piece of this, the transformation of public housing and how this fits. This is, arguably, the most profound, the most difficult, the most exciting and likely the most controversial aspect of what we're proposing in our three changes.

We're proposing to change public housing as it exists in America today, and we expect that this will go forward in three components. What you see listed before you is the first component, first period, first year of the change.

With your concurrence as a Congress, this will happen immediately upon passage of the legislation. We'll combine some several dozen public housing funding programs into two, one for capital assistance and one for operating assistance.

So far, this is not controversial. The housing authorities love it. Everyone else associated with the system loves it, because what it means is that they will be able to consolidate their efforts.

Presently, we have nonsensical situations where, when a housing authority wants to tear buildings down and replace them, all we have money for is modernization. So they have to, against their own good judgment, modernize buildings that they really want to take down by consolidating everything into a capital fund. They can do that.

We will deregulate over 3,000 public housing authorities, improve the operations of the 100 or so worst and accelerate the demolition of the worst developments. The next chart describes some of the process of demolition that's already underway.

Demolition has already begun at Washington Park in Chicago about 3 weeks ago, at Lincoln Park in Denver about 2 weeks ago. Lake West in Dallas is underway now, and among the national profile projects to be demolished over the course of the next year includes Cabrini Green in Chicago, Allen Parkway Village in Houston, which has been in litigation for a decade, Walsh Homes in Newark; Desire, arguably the worst public housing setting anywhere in the United States of America. It is a front page New York Times story about the conditions of Desire.

Frankly, people ask me all the time, "Has public housing failed?" My answer is no. These developments took care of tens of thousands of people over their lifetime, but they were built in the 1940's and the 1950's.

We don't expect anything else to last in perpetuity. So many things have changed. Security environments have changed, but the architecture of these buildings has stayed the same. Today, we live in a world of guns and drugs and gangs. These buildings are not set up to handle such an environment. They lend themselves to easily to be managed by drug lords in the lobbies and Uzi-toting gang members on the upper floors. It can't be secured. We need to be moving to a different system of smaller scaled, decentralized scattered site units.

That's why these units are coming down. It's not because they didn't perform an important function. They did. Tens of thousands of families have gone on, but they don't work anymore in this configuration.

The next chart describes the consolidation of all of our public housing developments into the two that I described earlier. For example, Bruce, if you could point at development, it shows $598 million, and then modernization, it shows $3.7 billion.

Well, what happens is a public housing authority wants to develop something new, but all we had money for, under the old system, was modernization. Under this system, all that money goes into one capital fund, and they will proceed to demolition and replacement, as they're doing, Congressman Fattah, at Raymond Rosen this March.

The residents are literally begging for this high- rise where a child was thrown down the garbage chute a year before last and killed, to be brought down, and this approach will make that possible.

The second big piece is beginning to move to a certificate system, and what we will do is we will take all of our funding for public housing and our Section 8 initiative and put it into a housing certificate fund.

The second step after the one that I've just described is to begin funding public housing in a different way. Instead of funding it in this top down, centralized fund the bureaucracy, fund the monopoly of the housing authority, we begin to produce the certificates.

And in the first step, the certificates are still tied to units, but the third step, which we hope to be at within the next 5 or 6 years, and that's why this needs to be a bipartisan consensus—because it's not going to be done in the timeframe of a single administration.

It's going to be the next decade or so that this unfolds. We didn't create this system overnight. It's been 60 years in the making, these god awful conditions, and it's going to take a while, and we're all going to have to be in track.

The long-term objective is to move completely to a tenant-based certificate system where, instead of us funding the housing authority and forcing people to live in the conditions that they are with no choice—when their name comes up on the waiting list, they go to the first vacancy with little choice, or they go back to the bottom of the waiting list and wait another 3 years. Instead of that, people will get a certificate, and they'll be able to make a choice.

Now, because this is going to take 6, 7 years to play out, the housing authorities, through the other steps that I have shown you, will have had enough time to get up to speed, and in that timeframe they can be competitive.

They can have buildings that are safe and buildings that are maintained and buildings that have been rehabilitated. And then, when we go to a certificate system, the people can choose to stay, because that is good quality housing.

On the other hand, the more inept housing authorities that have not used their time well and have not built buildings that are safe and maintained and have not put in money for rehabilitation will not be competitive, and the people will choose to leave.

I can't think of a more profound idea to empower people than to give them the choice to leave. I have been in, as Congresswoman Collins knows, spent the night in Ida B. Wells and in Robert Taylor in Chicago, and the people there, if they had the choice, would go, leave tomorrow.

Now, not all public housing in America is like Robert Taylor Homes in the south side of Chicago, but there is no justification for keeping people in those conditions because we have loyalty to a system; we have loyalty to a housing authority.

What we do have to make sure is that this is a plan that has bipartisan support so that we don't cut out the certificate funding when we are funding people by certificates.

The argument to date has been, if we fund the units, it's harder to cut the money for the units. Our argument is it's not necessarily

so. When you cut the money for the units, nobody ever sees the damage but the people who live there. Well, the first thing that goes is maintenance and security and so forth. So, I think we can make an argument that this is the right thing to do and that we're, in the final analysis, empowering people in the most profound way and solving a lot of other problems in our society as well.

When we give people choice, we're going to break up some of the isolation that exists today. When we give people choice, we're going to allow people to move to where jobs are instead of having to take buildings because we've invested in the buildings, not in the people.

The third and final piece of our reinvention is the transformation of FHA from a Government bureau to a Government-owned corporation. We'll consolidate some 29 insurance programs into two general insurance authorities. We'll empower FHA to have more flexibility so they can work with State housing finance agencies. We will mark to market the debt on insured rental properties. That means identifying them at their actual market price so it reduces the subsidies that we're paying on them and saves huge sums of money.

We'll set performance measures to ensure accountability, streamline operations. FHA goes from about 6,000 people present Government organization to about 2,500. You see there some of the consolidation as to why it can reduce staffing. FHA will function more like what it is, an insurance company, a modern insurance company with technology, with processing centers, reducing the 81 offices that we now operate to decidedly fewer around the country. The net effect should be an organization that instead of taking 5 weeks to endorse insurance applications that it could be done in 5 days the way insurance companies with paperless office operations do today.

Bruce, let's go to the budget. I'll be happy to answer questions about the FHA portion as we go.

This is just to begin to close out by describing to you what this means in budgetary terms. HUD's budget increased slightly. There is a reason for that.

The first reason is that those who say that by either eliminating the agency or dismantling it and strewing its pieces around the government it could save money, well, it's just not a factual statement.

The next chart describes the extent to which HUD's outlays are driven 88 percent by previous-year commitments. This is an agency that, by definition, takes time to do its business; that is to say, cannot build new housing and expend the money in the same year that the money is authorized. It is a process of two and 3 years. You cannot tear down public housing or build new public housing or rehabilitate public housing except in multi-year cycles.

The renewal of Section 8 certificates is a multi- year commitment. So any intense look at the HUD budget quickly one concludes that it is driven by previous-year commitments. Therefore, it's not easy to reduce the funding. The other reason, we'll go back to the budget chart, that our budget stays strong is because we made the case to the President, and I had the opportunity to make this case personally, that if we were going to go through change as dramatic as this is, and I dare say it is as dramatic as any depart-

ment in the Federal Government is imposing upon itself at this time, if we were going to go through change this dramatic, then what we did not want to do was to block up for the purpose of cutting back.

What we could not justify was telling local governments that we were going from 60 programs to 3 and use that as a ruse for cutting the money, because our whole point is to keep production levels up, even strengthen them.

We think we can do that by giving more authority to local government and doing it at the community level, but what we did not want to do was cut back the funding at this time.

Now, I will say that our reinvention does save money. HUD will go from its present 12,000 employees—we had 13,500 when I came 2 years ago—12,000 employees in 81 offices and the headquarters to about 7,500.

We will save $800 million in the process in salaries and expenses. Beyond that, we will save $51 million in budget authority, billion dollars, and $13 billion in outlays as a result of the transformation that I have described.

Buried within this transformation are a whole host of policy changes, the mark to market, for example, which reduces subsidies to landlords of assisted housing; the stressing of family preferences in public housing so that families, and working families in particular, are able to pay a little more in rent.

It reduces what we subsidize, from the government standpoint. So we exact substantial savings over the years as a result of the transformation that we've proposed.

Mr. Chairman, that, in brief, are the three major dimensions of change that the Department is proposing. As I said, if you had told me this time last year that we would be here now proposing changes this substantial, I wouldn't have believed it.

We were on a course of making changes, but events have conspired and converged to force us to jump several generations of thinking. We have literally jumped two or three major generations of what would have been phased change and gone nearer the end of the spectrum of change. Those events include, obviously, our reading of what the President and the Vice President want of this Department and our reading of what the American people said in the elections about simplicity, devolution, smaller government, more efficient government. As a result, we have tried to respond, and our response is the plan of change that I have had the privilege of presenting to you today. Thank you.

[The prepared statement of Mr. Cisneros follows:]

PREPARED STATEMENT OF HENRY G. CISNEROS, SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Chairman Shays, thank you for inviting me to testify before you and the Subcommittee on Human Resources and Intergovernmental Relations. I welcome this opportunity to discuss with you and the Subcommittee members the successes and remaining challenges of HUD's mission.

The most severe challenge is the challenge to our national commitment to fulfill HUD's mission. There are people here on Capitol Hill calling for the dismantlement of HUD. I take these calls very seriously.

Today, HUD is literally fighting for its life. But we are not fighting to preserve a bureaucracy. We are not fighting for an institution. We are not even fighting for

programs. We are fighting to preserve a national commitment to the economic health and social viability of our nation's urban centers.

We are fighting to preserve a vital mission: promoting the business growth, the job expansion, and the increased opportunities for affordable housing and homeownership that poor people and low- and moderate-income working families in economically distressed communities must have to lift themselves to better lives.

No other federal department or agency pursues this mission today. It is truly unique to HUD. And if HUD were to be dismantled, this mission would truly be lost. For the sake of our nation's future, this must not happen.

But HUD must change if its mission is to be preserved, because the old HUD was not serving its mission well. When I came to HUD two years ago, I found a department that was more interested in bureaucratic process than it was in results. I found a department that was committed to the perpetuation of programs that no longer worked. I found a department that was distrustful of local ideas, of local initiatives.

Mr. Chairman, President Clinton knows, as you and this Committee and I know, the conditions I found could not further the mission of the department. HUD had to change.

President Clinton made a commitment to reinvent government, to make it more responsive to the needs of the American people. He knows, as you and this Committee and the Congress know, that people want government off their back, but on their side. He's working to make government better serve the American people. And that's what he asked me to do at HUD.

With the president's support, we set out to change HUD. We eliminated an entire layer of regional bureaucracy and pushed more decision-making authority out to our field offices to make the department more responsive to local needs. We streamlined programs and cut red tape, to give local communities more flexibility to solve their own problems.

We re-energized the Federal Housing Administration. In 1994, FHA had the second-best year in its 60-year history, ensuring 1.3 million home loans, including 450,000 for first-time buyers.

We began working with public housing authorities across the country to turn around this nation's most distressed public housing—and the results of this work are starting to show, as old, deteriorating buildings come down in places like Chicago and Dallas.

For two years, we have been steadily changing the way HUD does business. Now we are dramatically accelerating the pace of change at HUD.

First, we have proposed to consolidate 60 separately funded, major programs into three broad, flexible funds by fiscal 1998:

- Housing Certificates for Families and Individuals, to provide direct housing assistance—based on fair-market rents—to low-income people;
- An Affordable Housing Fund, to support development and rehabilitation of affordable housing; and
- A Community Opportunity Fund, to stimulate community economic revitalization.

This consolidation will sweep away the clutter of separate application procedures, rules and regulations that accumulated at HUD over the last 30 years, as programs were piled on top of programs. And we will free cities and states to solve their own housing and economic development problems in their own ways.

Certain conditions would still apply to the use of these funds: adherence to income-targeting rules; compliance with fair housing laws; attention to vulnerable segments of the population—the homeless, people with disabilities or HIV/AIDS, and the frail elderly; emphasis on transitions to economic independence and homeownership in program design and implementation; and involvement of community-based organizations. But localities and states would have wide flexibility within these broad conditions.

They will also have a powerful incentive to put performance ahead of process, just as we are doing. Our new funds will be performance-based. That means cities and states that produce real, tangible results for the people and communities who need our help today . . . more affordable housing, expanded homeownership, business growth, increased job opportunities . . . those localities and states will get bonuses—more resources and increased flexibility. Cities and states that do not perform will not get extra funds—and in extreme cases, they could face cuts. We are building serious market disciplines into these funds.

Second, we've proposed to phase out direct subsidies to public housing authorities. Instead of subsidizing buildings and bureaucracies, HUD would provide direct assistance to residents. They would be able to make their own choices about where they live, and housing authorities would have to compete with other housing provid-

ers for their business. When this transition is complete, public housing will be indistinguishable from conventional housing, and it will be a true asset to our communities.

Third, we've proposed to transform the Federal Housing Administration into an entrepreneurial, government-owned corporation, which will work much more effectively with the private market to expand homeownership and to develop more affordable rental housing.

In very broad brush strokes, that is our reinvention.

HUD's 1996 budget translates our reinvention into concrete action. It is a vehicle for fundamental change at the Department of Housing and Urban Development. Our budget:

• Launches our reinvention blueprint by starting the process to give low-income people the chance to make real choices about where they live, providing communities the resources to address local needs, and expanding homeownership opportunities for low-, and moderate-income and middle-class working families.

• Delivers on the President's commitment to communities by strengthening the capacity of cities and states to develop and implement their own initiatives. Through performance partnerships, for instance, cities will see a 27 percent increase in funds actually available directly to them to expand affordable housing, promote business development and increase fob opportunities.

• Slashes HUD's bureaucracy and gets HUD out of the business of prescribing solutions and back to the business of supporting local initiatives.

• Reflects tough choices we have had to make in balancing our desire to fund the consolidated programs at fiscal 1995 levels with the need to meet tight spending caps.

This budget achieves all these objectives within the constraints of the very tight fiscal environment in which we operate today. We have been able to maintain HUD spending at virtually the same level as fiscal 1995: $25.7 billion in budget authority and $31.8 billion in outlays. The critical difference is in how these resources will be deployed. That is where reinvention—and some very tough decisions—come in.

It is a new day at HUD. The American people demand a federal government that works better, makes the best use of their tax dollars, and supports local initiatives rather than handing down edicts from Washington. Our fiscal 1996 budget gives the American people a new HUD that will more efficiently meet the complex needs of communities.

HUD's reinvention carries out President Clinton's directive to consolidate categorical federal programs into performance partnerships that devolve initiative and decision-making authority to localities and states.

Here's how the funding levels we propose for 1996 will launch the program consolidation that is fundamental to HUD's reinvention.

AFFORDABLE HOUSING FUND

We propose $3.34 billion for the Affordable Housing Performance Fund. This Fund consolidates current grants for housing production and rehabilitation, including homeownership initiatives, into a single, flexible program. Funds would be provided to localities and states on a formula basis, with a national set-aside for Native Americans.

Affordable housing funds would be allocated to States, cities, and urban counties using the current HOME formula: 60 percent to local jurisdictions and 40 percent to states. We would continue the current set-aside for community housing development organizations.

COMMUNITY OPPORTUNITY FUND

Our 1996 Budget proposes $4.85 billion to consolidate 14 current HUD grants for community economic development into a single Community Opportunity Performance Fund.

This program would build on the highly successful and popular Community Development Block Grant (CDBG) program by providing localities and states with the flexibility to fund a wide range of community-based economic development and revitalization activities now served by independent programs.

Funds would be allocated using the current CDBG formula: 70 percent to large cities and counties and 30 percent to states with a set-aside for Indian Tribes.

HOMELESS ASSISTANCE FUND

The budget reflects our commitment to vulnerable populations. We have proposed $1.12 billion to create a single Homeless Assistance Fund to provide flexible support

on a formula basis to States, local governments, nonprofit organizations, and Indian tribes.

This new grant program would consolidate the existing HUD McKinney programs into a single Homeless Assistance fund to enable communities to shape a flexible, coordinated "continuum of care" approach to solving homelessness.

HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS

We also propose a 1996 appropriation of $186 million to meet the special housing needs of persons with AIDS. The program allocates funds to grantees based on the incidence of AIDs. Such activities include: housing information and coordination services; short-term supported housing and services; short-term rental assistance; single room occupancy dwellings; and community residences and services.

COMMITMENT TO CITIES AND STATES

What these resources amount to in FY 1996 is a significant commitment from this President and HUD to cities and states.

In 1996, the share of the budget to local and state governments will grow and they will get an increase in funds.

For example, for America's three largest cities alone, the increase in funding for community and economic development totals roughly $325 million.

HOUSING CERTIFICATES FOR FAMILIES AND INDIVIDUALS

The HUD budget proposes $7.67 billion for consolidation of all Section 8 rental assistance programs that provide housing assistance to families and individuals.

This consolidation is the first step in a multi-year process toward consolidating all current public housing, assisted housing and rental assistance programs into one fund for tenant-based housing assistance administered at the State and local level. In FY 1996, we would provide 50,000 additional households with new certificates to help them afford rental housing in the private market. This is an increase on top of almost 400,000 certificate renewals.

Our budget and the overall Administration budget show a clear commitment to affordable housing. Taken together, our 1996 budget, the Agriculture Department's rural housing programs, and the low income housing tax credit will produce or rehabilitate new affordable housing units, or provide subsidies for more than 500,000 additional families and individuals.

TRANSFORMING PUBLIC HOUSING

We propose transforming the current public housing system by giving residents market choice in the search for affordable housing, by ending the monopoly of housing authorities over Federal housing resources, and by accelerating the demolition of uninhabitable or non-viable public housing developments.

Beginning this year, all public housing programs will be consolidated into two accounts for capital expenditures and operations; a performance-based system would be instituted through deregulation of more than 3,300 well-performing housing authorities; steps would be taken to improve the operations of more than 100 severely troubled authorities; and thousands of severely deteriorated units would be demolished and replaced either with tenant-based certificates or small-scale, scattered-site housing.

Two funds would be created this year.

PUBLIC AND INDIAN HOUSING OPERATION PERFORMANCE FUND

Our FY 1996 Budget proposes $3.2 billion for a consolidated public housing operating grants program.

This proposal would allocate operating funds for public housing authority operation according to the existing performance funding formula.

We also propose changing tenant admission rules to give greater preference to families that are either working or enrolled in job training or education programs. This approach will increase average income of subsidized families and thus drive down the federal subsidy per assisted household.

PUBLIC AND INDIAN HOUSING CAPITAL PERFORMANCE FUND

We propose $5.17 billion to consolidate all current public housing capital programs into a single Public and Indian Housing Capital Performance Fund. This Fund would provide Federal resources to rehabilitate and restore viable public hous-

ing in need of modernization, demolish uninhabitable and non-viable public housing projects, and construct replacement housing where feasible.

THE FHA CORPORATION

FHA's bureaucratic structure and rules impede sound business practice, and its one-size-fits-all products cannot be tailored to local needs or specialized markets. To operate effectively, FHA must change dramatically, relying more on market incentives and private sector partners to boost housing production and increase homeownership.

The reinvention of FHA will create a government-owned, market-driven enterprise that would use Federal credit enhancement to finance expanded homeownership opportunities and the development of affordable rental housing. This is good news for middle-income and lower-income people, minorities and new immigrants, people the private market does not always serve.

The new FHA corporation would consolidate FHA's 29 existing insurance programs into broad single-family and multifamily insurance authorities.

The new FHA would rely increasingly on partnerships with well-capitalized, sophisticated financial institutions, including Fannie Mae and Freddie Mac, the Federal Home Loan Banks, private mortgage insurance companies, state and local housing finance agencies, and community-based organizations, to design a variety of products that meet market needs and share risk.

Performance goals would be set to ensure the new FHA's accountability on such measures as meeting the needs of underserved populations, budget issues, and financial performance.

RESTRUCTURING MULTIFAMILY HOUSING

Reinvention will permit the restructuring of debt on FHA's existing portfolio of insured multi-family properties, which will achieve meaningful cost savings, enhance housing quality, and allow properties to compete in the marketplace for renters holding tenant-based assistance.

Property disposition and asset management procedures will be streamlined in a way that is cost-effective, while protecting tenants and ultimately reducing the government's role.

We would revise the costly 1990 preservation law to narrow the universe of properties that are eligible for federal subsidies.

The multifamily restructuring also includes a flexible source of funding to meet the physical needs of properties, including rehabilitation and meeting the security needs of residents in older, viable projects.

Many older insured and assisted properties lack the necessary resources to be maintained as quality housing. Many of these projects have been sheltered from the conventional rental market, and the excessive rents they require would not permit them to compete in the market. Rather than continuing to artificially prop up these properties with more rental assistance, HUD believes it is better and less expensive to establish these properties' true market value. As part of this approach, debt service on some properties will be reduced based on a "mark-to-market" approach to allow them to compete in the rental market without relying on project-based rental assistance.

FAIR HOUSING

The reinvention of HUD and spending reductions will not come at the expense of the Department's responsibility to enforce fair housing and equal opportunity. Access to housing must be made a reality for all Americans. The availability of homeownership opportunities and rental housing free from discriminatory impediments are essential to strengthening America's communities.

The Budget provides $45 million to expand support for two existing programs—the Fair Housing Initiative Program (FHIP) and the Fair Housing Assistance Program (FHAP)—that enable HUD, working with nonprofit groups and state and local governments, to aggressively enforce the Nation's fair housing laws. This funding will enable the Department to assist an increasing number of state and local agencies who administer fair housing laws that have been certified as "substantially equivalent" to the Fair Housing Act.

TOUGH CHOICES

What we are proposing is radical change, with the goal of moving resources to communities and enabling communities to do more with them. Change of such magnitude is difficult at any time; at this time, when federal spending is frozen, the

challenge is particularly difficult. Fiscal constraints and the desire to reduce federal spending force a series of trade-offs. Reductions and reforms in one area are used to sustain funding levels in another.

The tough choices we have made are based upon the same principles we set forth in our Reinvention Blueprint.

• Maximum flexibility should be in the hands of decision-makers at the neighborhood, local and state levels.

• Low- and moderate-income families should have greater power to make decisions about their lives, and government should support their quest for self-sufficiency. In other words, the focus is people over projects.

• The very character of HUD needs to change if the reinvention of our policies and programs is to succeed. HUD must become more entrepreneurial, a true partner for change in communities.

The tough choices we have made balancing our desire to fund the consolidated programs at fiscal 1995 levels with the need to meet tight spending caps.

• We will no longer try to preserve all assisted housing at any cost. In the affected communities, there are better, more efficient alternatives to providing affordable housing for low-income people. We will no longer try to replace all public housing units regardless of their condition. All we have done by following this blind housing policy is to bottle up the poorest of the poor in these places and destroy the neighborhoods around them.

• We will stop excessive subsidies to landlords. This means we will no longer subsidize rents in federally assisted housing that are higher than rents for comparable private housing. There is no reason why assisted-housing landlords should collect more in rent than landlords who operate without taxpayer dollars.

• We propose reducing the term of Section 8 assistance to low-income families from five years to two years.

Some of these choices reflect a dramatic shift towards policies that will impose market constraints on HUD's support for affordable housing.

Substantial savings will also be proposed on the administrative side. The consolidation of HUD programs into three performance-based funds and the move toward an FHA corporation will obviate the need for the current numbers of HUD staff and field offices. What HUD staff do, how they do it, and where they do it will be inexorably altered by this ambitious restructuring.

In the first two years of this administration, we have already cut the department's workforce from 13,500 to about 12,000 employees. Over the next five years, we will cut deeper, shrinking HUD to about 7,500 employees.

Thus, as the President announced last month, more than $800 million in administrative expenses alone will be saved over the next five years.

We propose $476 million in rescissions from our fiscal 1995 budget appropriation, including $100 million for a never-implemented public housing management reform proposal, $80 million that is not needed due to a backlog of unused funding for a private housing lead-based paint hazards removal program, and $150 million for a preservation/prepayment program that HUD believes is too complex and too generous to some landlords.

Because of these and other tough choices, HUD projects a savings of $7.6 billion in budget authority and $860 million in outlays for fiscal 1996, relative to fiscal 1995 program levels after adjusting for inflation; and a five-year-savings of $51 million in budget authority and $13 million in budget outlays.

CONCLUSION

These and other tough choices are absolutely necessary for us to complete HUD's reinvention and do a better job of fulfilling our mission. They make possible the 1996 budget, which enables the creation of new opportunities for partnerships among HUD, local and state governments, the private sector, and community-based organizations.

This budget represents fundamental change at the Department of Housing and Urban Development. But we have not changed our mission or our ideals. Although our budget is an important step toward a new HUD that is customer-oriented, performance-driven, and more responsive to local needs, our ultimate goal remains the same: to help the American people create communities of opportunity.

The 1996 budget recommits HUD to the priorities we have held since day one: strengthening competitive cities and revitalizing neighborhoods; expanding homeownership and affordable rental opportunity; reducing homelessness; transforming public housing; opening housing markets; and managing for performance and results.

The country needs a federal commitment to communities, to its cities, to affordable housing, to local economic development, and to the housing needs of the poorest and most vulnerable citizens. The nation at this time in history must reassure its cities and their citizens that it remains committed to their role in America's future. HUD's reinvention and our 1996 budget reflect that commitment.

Now, Mr. Chairman, I'll be happy to answer any questions you and the Subcommittee members may have and discuss with you the successes and challenges in fulfilling the mission of the U.S. Department of Housing and Urban Development.

[The attached material submitted with Mr. Cisneros' statement has been retained in the subcommittee's files.]

Mr. SHAYS. I thank you, Mr. Secretary. Mr. Secretary, without objection, your testimony will be inserted in the record.

What I'd like you to do before you entertain questions from us, is to take other aspects that we asked you to, and in general terms relate them to this whole effort of reorganization.

But would you tell us—you've been Secretary for 2 years—the areas that you think you have the biggest challenge, the areas that you think you've been the most successful and the areas where you think your department has the longest ways to go?

Mr. CISNEROS. The areas where I think we confront the largest challenges, in substantive terms, are principally two. Public housing is a very troubled enterprise in many parts of the country.

We have 3,400 public housing authorities we work with. About 105 of those are troubled. It's a relatively small percentage of the public housing authorities, but those 105 are the larger ones, and therefore they represent about 22 percent of the total stock or units of public housing.

We have 22 percent of the units in troubled housing authorities, and the worst, Mr. Chairman, are very bad indeed. It's simply unacceptable, the conditions which people have to live.

The second substantive area of greatest challenge is assisted housing. Congressman Peterson knows well because he has been to such sites and chaired hearings on the subject of the conditions in assisted housing where we have set up subsidy programs for owners who have, for one reason or another, been unable to maintain the housing in good quality. And so we have assisted housing that is privately owned but governmentally assisted housing that is in as difficult condition as public housing in a lot of places and really truly unconscionable actions on the part of landlords in many cases.

So those are two areas of immense challenge. The areas where I think we've been able to make the greatest progress, I'm proud of the fact that HUD today operates, and most local government officials will report this, in a more entrepreneurial fashion. So we've been able to convey a culture of responsiveness out across the country.

Second, I'm proud of the fact that we have been able to address homelessness straightforwardly. The effects in the communities are not what I would like yet, but we're seeing a tremendous network of homeless advocates and producers across the country operating.

I'm very proud of the so-called Hope 6 or Urban Revitalization Demonstration grants to public housing authorities, because they give us a chance to collapse all of these values of entrepreneurship and try them out in particular developments. So we're seeing substantial change. I'm proud of the Department's commitment to

open housing and civil rights. Roberta Actenberg has done a stellar job, the *Vider* case in Texas, but other instances across the country where we have taken a stand and made our voice heard on what is fair, in terms of ending and lowering discrimination and its barriers.

Fair lending, particularly proud of the voluntary strategies that have resulted in the Mortgage Bankers Association signing a voluntary agreement to lower discriminatory barriers in the mortgage lending industry. And now individual mortgage companies are stepping up, Collateral Mortgage of Birmingham, AL; Countrywide, California-based, the largest mortgage banker in the country, signed up in that fashion.

And the home builders have signed up for a voluntary marketing agreement to stress efforts to reduce discrimination in home buying and so forth. So all of those are areas where I think we've had particular success.

To answer the final part of your request where are the most troublesome areas that require the greatest work yet, clearly management issues within the Department, issues related to our computer systems and developing a finer sense of the accounting and resource management within the Department.

A continuing effort might be made to streamline our field structure. We now have these 81 offices. We're going to be closing some, but changing the attitude in those offices from one that is completely bureaucratic, used to telling people all the reasons why we can't help them to one that reaches out to the community, faces outward, not inward is a tremendous management challenge that must continue.

Those would be, in summary, some of the comments that I would make.

Mr. SHAYS. Great. I'm going to start my portion of the 5-minute questioning, and given that we don't really have that many Members, I'm going to be very comfortable with letting Members go a little beyond their time. We'll try to space it out, and I'm very happy to have Members come back and go for a second round, if they'd like to.

So if we could, let me start my questioning. There is a general belief by many, I think, that HUD has been such a troubled agency that just simply reorganizing it with the same people and the same culture means that we're going to end up with the same kind of problems.

I'd love you just to address that issue. We have investigated HUD endless times. We have serious challenges that still remain, that evolved over many different administrations.

When we look at public housing, as you have pointed out, we have gigantic challenges with how some are administered and, obviously, your statistic of 22 percent.

So what would be your response to the fact that maybe HUD can't be changed without just totally redoing it?

Mr. CISNEROS. Mr. Chairman, let me say, for starters, that the biggest challenge that confronts HUD is the challenge that confronts America, and that is dealing with some of the worst social problems that exist in American life in our cities.

The problem of HUD is that it has a tough portfolio, has a tough assignment. I believe it is an assignment that is worthy of our country's best efforts, and therefore, walking away from it or suggesting that somehow some management tinkering is going to solve the problem of people with low incomes, without jobs, the social conditions that exist in the country is clearly not the answer.

As long as we're going to be working on this problem, we can't be too squeamish about the fact that they are very tough circumstances, and there is no easy way. There is no bloodless or clean way of dealing with these inherently messy realities.

So as much as I might want to apologize for not only my own efforts but those of my predecessors, the fact of the matter is that when the Department was created in the midst of the urban crisis of 1965, in the era of rights and Federal troops in the cities, it has always had some of the toughest problems that is possible to envision in American life.

Having said that, there is those who would call for the elimination of the Department, but, in fact, that is impossible because the functions don't go away. At best what could be accomplished would be portions of the Department could be spun off to other places, and I have seen plans that send the Community Development Block Grant Program to the Department of Commerce, that send the FHA area to Treasury, that send the homeless programs to Health and Human Services, but that would be at best cosmetic.

The fact of the matter is that homeless programs would be lost among Treasury's major constituencies, which is the banking sector, and that would not be an advance for housing in America, for the housing and mortgage insurance industries.

And to send community development programs to the Department of Commerce is to group them with the National Oceanographic Service and the Census and some other places that there is no logical fit.

No. The truth of the matter is it made sense in 1965, and it makes sense today to try to build on the synergy that comes from the different parts of relating to communities.

It is important to have in the Cabinet of the President of the United States an agency that advocates for the cities, an agency that represents the housing sector—14 percent of the country's Gross National Product—and an agency that explicitly has the mandate of dealing with some of America's most vulnerable populations—disabled, elderly, homeless, housing needs.

Now, finally, let me say clearly HUD must change. On the list of agencies that must undergo dramatic transformation, HUD is very near if not at the very top of the list.

We've known this for the last 2 years, and we have been pushing that kind of innovation. Many of the things you see there this plan are dramatic only because they're grouped together. We had the pieces over the course of the last several years.

As I said a moment ago, events have pushed us to try to collapse all of that into a more immediate timeframe. What you see here is not minor bureaucratic tinkering.

It is taken 60 programs that it's taken an agency of 13,000 people to run and reducing them to 3, because we're not going to have

any longer applications coming in, and we're not going to have people reviewing those and managing those.

We're going to send the money to communities. That's what I think I have been hearing from the Congress and from the American people about the way they want government to operate.

In public housing, it is impossible to change public housing any more than we have except to get out of the business of providing public housing at all. I know there are some who would like to do that, but that ignores the fact that we have waiting lists four times the length of the people who are in public housing, that we have 4 million people in America who cannot afford housing today. They're paying 50 and 60 percent of their personal budgets for rent. I would never advocate that we get out of the business of public housing. If we're going to stay in it, this is about the most dramatic change, going to a vouchering system, that it's possible to go to.

This is not business as usual. This is a transformation, and believe me, it will change the structure of the organization in the process, because the whole value system is changing.

Mr. SHAYS. It will definitely change the structure, and I think it is a bold plan. The question is are people in HUD the ones to do that? And that's one of the issues I think we as a committee and you will also be addressing. Is this group of people in HUD able to make the kind of changes——

Secretary CISNEROS. Meaning the present bureaucracy?

Mr. SHAYS. Correct.

Secretary CISNEROS. Let me just say we have good people to whom we've given bad systems, and I would put the best of our team over there up against any other Federal civil servant in the country.

I don't think that is the problem. Now, it is true that in the case of FHA the reason we want to go to a "government" corporation is because there does need to be a new expertise that knows finance, that knows modern insurance, that knows technology, to staff that.

And we're going from 6,000 people to 2,500, and a good number of that 2,500 will be people with a different set of skills.

Mr. SHAYS. Is that where the major cuts are, in the FHA?

Secretary CISNEROS. That's where the——

Mr. SHAYS. Let me do this, to honor this process. Let me call on Mr. Towns. I'm going to come back later and just ask you some shorter, more specific questions. Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman. Mr. Secretary, thank you for your statement. I must admit that I was very impressed with some of the things you plan to do.

I have some concerns, as I indicated in my opening statement, that we've been able to get local communities now involved in housing and thinking about housing in a way that I've not seen in a long, long time. For instance, religious groups getting involved in trying to provide housing.

Some have been successful to this point. Others are now working toward trying to provide. And I think that if we really want to provide shelter and to provide adequate shelter, that we must involve others.

I think that the government really cannot do it all, I want to salute you for that kind of involvement.

This plan that you're proposing, and I know that some of this will be block grants that will be coming down, will you still be able to encourage the community and community-based groups and nonprofit groups to, sort of, continue the kind of involvement that they have at this particular time?

Secretary CISNEROS. Yes, sir, in two ways. First, the action will shift from applications to the Federal Government to working at the community level. Most competent community-based organizations, as you know, have strong relationships at the city level.

As a result, they should be able to insist that whatever plan comes out of the community has the most capable housing producers involved at the local level. So that's point No. 1.

Second, we believe it will be important, and though we are just in process now of negotiating these kinds of points with the Office of Management and Budget before we bring you a narrative that describes the final plan, we believe that these large funds going to the cities should have an earmarking that a percentage of the money must be spent with nonprofit organizations so that there isn't a temptation on the part of the local government, as much as we want them to be flexible, to ignore the infrastructure of capable nonprofits.

In so doing, we hope to avoid the swings that come with, oh, community-based organization that is out of sorts with a new mayoral candidate, back and forth political pressures that come and so forth at the local level.

I'll give you one example. We have a situation in San Diego where we have been funding a church-based homeless organization led by a priest who has just done a fabulous job providing homeless housing for thousands of people, tremendous success. The city supports him. The mayor supports him. The majority of the city council supports him, but the council member in whose his operation is located does not appreciate him.

In San Diego, they defer to an individual council member on matters within his district. This person would not get funded under the new system because right now he applies directly to Washington, and we fund him.

Under that system, the council member could conceivably block the funding in order to get it moved or whatever. You have to worry about circumstances like that when you go to a local funding mechanism. But on the whole, absent those kinds of circumstances, which exist to one degree or another in many cities, absent that we think the far greater course is to respect a local plan for housing, as opposed to force everybody to come to Washington and build a huge bureaucracy to respond to the needs of every nonprofit all across the country.

Mr. TOWNS. Thank you. Let me just ask one more question, Mr. Chairman. And I'm certain you've probably been asked this one before. Does HUD intend to honor the long-term Section 8 project-based contracts to their conclusion as you begin to make all these changes?

Secretary CISNEROS. Yes, sir. That's part of why that pie chart that I showed that shows the future commitments and why our

budget holes, because we do not intend to abandon our commitments to maintain either Section 8 individual contracts or long-term.

Mr. TOWNS. Thank you very much. And I yield back, Mr. Chairman.

Mr. SHAYS. Thank you. Mr. Scarborough.

Mr. SCARBOROUGH. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for coming and talking to us today. I can tell you that I'm impressed, as are many others, with your blueprint for reinvention. It truly does offer some dramatic change that, hopefully, other agency secretaries will move forward with.

I think it does move us in the right direction. I would like to ask you, though, if you would agree with those that think our long-range goal should be to move the Federal Government completely out of housing in the next decade or so. And I would quote a member of your own administration, Alice Rivlin, who in 1992 wrote, "The Federal Government should eliminate its programs in housing." And of course, President Clinton suggested it earlier.

What I'm asking you today is if you've taken the first step in this process to return power to the States in programs like housing? Is your long-range goal to eventually have the Federal Government completely removed from housing? And do you agree with Ms. Rivlin that this is a legitimate function of State governments?

Secretary CISNEROS. First of all, let me say that I wish that the day would arrive when it was possible that there would not be a need for that kind of assistance to the housing sector, but I'll be honest with you. Looking at the circumstances that confront Americans today, the vast gap between the stock of affordable housing and what wages have been doing and so forth, I cannot see that day.

I don't want to suggest that I believe it will be possible in any timeframe that I can see that the government will not have a role in housing.

The fact of the matter is that FHA has been a tremendous success. Last year was its 60th birthday, and in that timeframe, 23 million Americans became homeowners because of the mortgage insurance system.

Mortgage bankers, real estate industry, homebuilders all acknowledge the importance of FHA in the single-family markets. That's the government in housing, tremendous success.

As far as public housing, as I said, in recent years, it has been fashionable to talk about public housing as if it were a complete failure. In fact, we have 3,400 housing authorities, and only 105 are graded as troubled.

There are a lot of people in America who live in public housing today who would otherwise be on the streets. As far as I can see into the future, we ought to have a stock of available public rental housing for people who need it. So let me be clear that as much as I might hope for a day when it's not necessary, I can't see that day.

Alice Rivlin's comments were written, I believe, in a book she wrote on federalism in which she was suggesting sorting out of responsibilities between State and local and Federal Government, suggested that housing might occur at a different level. That has

not been her position in her present job at the Office of Management and Budget.

Mr. SCARBOROUGH. Perhaps I wasn't as exact as I should have been. I'm not suggesting that there is not a need for government involvement, and I'm not suggesting that there are not disadvantaged people across this country in every district who need assistance from the Government.

My question is, though, whether it should be the Federal Government being involved or the individual State governments being involved? That's what I'm asking. I don't want you to misunderstand. I don't want to throw people out in the streets here.

The question is what is the most efficient way to do it, and that's what Ms. Rivlin was suggesting in 1992, that it would be more efficient to let the Federal Government be involved in traditional roles.

Again, there was a time period, and you mentioned 1965, when the Federal Government needed to step in because the individual States were either unwilling or unable to fill this void that we had in the mid-1960's.

But Ms. Rivlin's book and many others are now suggesting that we are past that stage, and we have competent Governors and State legislators who can now step in and fill the void.

So the Federal Government needs to take a few steps back and allow them to be innovative without the Federal Government's involvement.

Secretary CISNEROS. I think that's an important set of discussions that merit discussion in the context of sorting out of responsibilities between the Federal and State level, perhaps a discussion about federalism, but my sense of it is that the Federal Government has been effective in the housing arena.

The States have only recently come to set up housing finance agencies in the last decade or so, and even at that they are very spotty, in terms of competence levels across the country, that I would not want to throw the baby out with the bath water until we had that larger discussion about what the relevant roles of Federal and State and local government were.

It may be a good subject for a larger sorting out of responsibilities, but I don't start from the premise that that's now a settled matter.

Mr. SCARBOROUGH. Is it possible, though?

Secretary CISNEROS. Is it possible?

Mr. SCARBOROUGH. Yes, in the foreseeable future.

Secretary CISNEROS. It certainly is possible. I think that we would require substantially greater capacity on the part of States than that that exists today.

Many Governors, I think, would want to know where the funding would come from. They are not presently funding this activity. They would have to raise taxes to do it. They would see themselves at the mercy of the business cycle, which is up and down in the States and which would squeeze their capabilities in times when their budgets were not as flush, as many of them are today.

Possible, but a lot of larger discussion about federalism needs to occur before I think even the States would want to take this on.

Mr. SCARBOROUGH. OK. Well, I see my time is up. I'd like to thank you for your appearance here today and more importantly to thank you for the innovative ideas you bring to your agency.

Secretary CISNEROS. Thank you, Congressman.

Mr. SHAYS. Thank you. We've been joined by Mr. Chrysler and by Connie Morella as well. And Mr. Fattah, you have the floor and we welcome your questions.

Mr. FATTAH. Thank you, Mr. Chairman. Mr. Secretary, first of all, I'd like to commend you for your hard work at the Department and your work around the country. We first met when you were mayor of San Antonio, and you are a tremendous credit to the administration, and I think that your work at HUD shows it.

Your blueprint is a document that I was glad to hear Joe say that he supported those ideas, because I also support them. I think it is a major step in the right direction.

I've been advocating in Philadelphia for the last couple of years that we move away from a strategy of warehousing poor people in projects to a community development strategy.

In many of our cities, there would be, I think, a great deal of support for the notion of scattered site housing, for lack of a better terminology, in neighborhoods where we provided assistance to families who needed support but provided that assistance in the neighborhoods that they live in versus moving them into public housing projects, which was the original notion.

The Federal Government is involved in housing for most of Americans who own homes through the mortgage deduction on our income taxes. This is the Federal Government's effort to provide affordable housing to the families who are in need.

And I think that your Department, to the degree that this blueprint is implemented, would make a major contribution, especially in our larger cities, through the innovation and creativity that it would bring.

I'd like to know, as you have laid this out, how the U.S. Conference of Mayors and the National League of Cities and other similar organizations have responded to these ideas?

Secretary CISNEROS. Thank you very much for your comments. I have known the congressman for a long time. I suppose all the members of the committee know of his mother's work in Philadelphia, Sister Fattah, who is one of the national examples of community-based leadership.

I've had the privilege of meeting her and knowing her for a long time but about 6 months ago went to—less than that, 4 months ago to the home where she keeps these young men and housing them and provides them education and support, young men who tell me themselves they would be on the streets were it not for Sister Fattah's intervention.

I don't want to put words in people's mouths on our plan, and I guess I want to tell you from the outset that the things we proposed are not safe things. So we're out in the middle of an open field with a lot of people really skeptical and worried about what we've proposed.

The mayors, I think, generally like the idea of consolidation, but they worry about other aspects of it. For example, they want to make sure that the Community Development Block Grant Program

stays exactly intact as it is today, and it is funded to the maximum extent possible, and are not sure about some of these other funds that we're talking about.

So that's, sort of, the mayors and the League of Cities. You can imagine the consternation among the Public Housing Authority organizations, NARRO and CLPHA, the Council of Large Public Housing Authorities, PHADA, the Public Housing Authority Directors Association.

They're very concerned about what this means because we are shifting funding as dramatically as it has been shifted since the public housing system was created and moving toward a certificate system.

The better housing authorities, the better managers think they can function under this system because if they can get their units up to quality people won't leave. Why would they leave? This is good quality housing.

It's those who have this stock of god awful housing that are worried that people will leave and leave them with empty structures. We're providing them enough time to make the transition, but they're not yet willing to accede to that.

So we're working with them, but let me say the Committee and the Congress cannot turn to the traditional places of support on a plan like this, because the traditional groups that have been decisive on whether or not housing legislation could go forward would rather have something near the status quo than something as dramatic as what is being proposed here.

Housing authorities, community development directors, State housing finance agencies, mayors, Governors, all of them will have something to say about this and have a crack at a piece of this. Mortgage insurance companies, mortgage bankers, realtors, homebuilders all have a stake in the future.

There is a lot to be sorted out here, and let me just close and tell you that this is going to have to be decided on the merits and with a level of courage because the traditional lineup of interest groups is not going to be unanimously supportive of what has been proposed. This is too big and too, sort of big step of change.

Mr. FATTAH. There has been some talk about the mortgage deduction and doing away with it. Could you give a quick comment, given the time left, on that issue?

Secretary CISNEROS. We have no discussion or plans to do away with the mortgage deduction. The President has stated both as candidate and as President that he would be opposed to any changes in the mortgage deduction. So that is not on our plate at this time.

Mr. FATTAH. Thank you.

Mr. SHAYS. Thank you. Let me tell you what my intention is. I wanted to ask you questions as you were going through, but I thought it was better to let you go through your statement.

Secretary CISNEROS. Sure. Absolutely.

Mr. SHAYS. Then we could all continually ask questions about the charts and not be under the 5-minute rule. Connie Morella.

Mrs. MORELLA. Thank you, Mr. Secretary, for being here. I'm sorry I missed your opening statement, although I have it before me. I was in my neighboring district at the National Institutes of

Health bringing a number of Senators there to be aware of this premier medical facility.

But I am very interested in the fact that you magically have taken the 60 programs and ultimately reduced them to 3. I have a couple of concerns, and I don't know whether you responded to these earlier, but I'll take my chance.

I am particularly concerned about the Affordable Housing Fund, which is going to be taking the 12 programs of one type, another 19 programs and putting them all together.

The Section 202, the Elderly Housing Fund, is one that I'm very interested in, because when the hundreds of sponsors of elderly housing entered into an agreement with the Federal Government, it was their understanding and expectation that the Department of Housing and Urban Development would provide funding for the construction and operation of the facility for 40 years.

So I wonder, Mr. Secretary, how do you intend to fulfill HUD's commitment to the existing sponsors of elderly housing for the operation of these important facilities?

Secretary CISNEROS. Obviously, we will continue to work with existing sponsors. This money is primarily new construction and capital money. And let me make clear to the members of the Committee this is one example where, when we talk about devolution and we talk about consolidation, we're taking on a very sensitive program.

That is to say, this is a case of a program that is one of our most successful. I dare say if you went into a small community anywhere in America today, if we were to drive down the main street of that town and you saw out three blocks away a high-rise building, and it was only high-rise building in town, I'll bet you we could jointly conclude that that was the 202 elderly project in that community.

And everywhere they're just fabulous. They're wonderful. But they're also very expensive as a way to produce housing for the elderly.

So for years, HUD has gotten pressure to transform this separate system of funding elderly housing to something more like a generic housing production system.

And so we have put the capital money for new construction of elderly housing into the Affordable Housing Fund so that communities now have substantially more money. I showed a chart earlier that shows much more communities will have. And they will have an obligation to develop elderly housing at the local level, which they will be able to do by taking this money, matching it to local income housing certificates or, rather, credits, tax credits, matching that to other funds that are available, nonprofits and so forth, to come up with a layered approach to building elderly housing. The action will be at the local level. It will be more complex.

Now, if the Congress feels, in its wisdom, that the Elderly Housing Program was working just fine and that we want devolution but devolution, you know, not of everything, then that could be one thing that could be held out, but our hope was to create maximum flexibility at the local level and move from this system of centralized funding to a system of community-based funding.

Mrs. MORELLA. And what would you establish in the way of criteria?

Secretary CISNEROS. Well, you'd have to establish criteria that said that:

This is your plan for housing. It stipulates a census of your needs. You have *X* percentage of elderly, *X* percentage of disabled, *X* percentage of homeless. We expect you to, in your performance agreement with us, agree that you will produce housing by whatever means that meets this criteria.

And that's the way we would proceed. This is performance-based partnerships with communities.

Mrs. MORELLA. And you know, in my area, there are a lot of nonprofit organizations that enter into partnerships; they have been one of the keys to the provision of low-income elderly housing. How do you assure that you're going to have that same degree of participation?

Secretary CISNEROS. As I said earlier, the action will shift to the local level. Here is the problem though, right now with the present system and the groups that you're talking about.

They will apply to HUD, but our funding level has been at about $1 billion, and we generally have three, four times as many applicants as money available.

So it's a very hit and miss system right now. It's dominated by some national intermediaries, B'nai B'rith and other sort of national church organizations doing a wonderful job nationally, a group called National Church Housing and others based in Columbus, OH, do a lot of it in communities.

And what we're doing is we're shifting to a system where we tell community-based organizations, "You're going to have to relate to your local government. They have the money. They are the ones who are going to have to produce at the local level."

Now, this may be one of these instances where devolution goes farther than we all want it to, but we've tried to take the principle of devolution and apply it across the board.

Mrs. MORELLA. So you're saying you're talking about a concept, the principle, but this is not anything that's final? This is something you are presenting——

Secretary CISNEROS. It's not final until it's law.

Mrs. MORELLA. Until it becomes law.

Secretary CISNEROS. And the authorization and the appropriations come from this body.

Mrs. MORELLA. And it's really true. So many of the nonprofit organizations are religiously based organizations, whether they're the Methodists or the Catholics or the Jewish groups.

Then, on another subject, someone had handed me a letter that you had written to Senator Dole that dealt with discrimination in the Islamic community.

Secretary CISNEROS. The issue there is Senator Dole wrote me a letter asking for a survey of whether or not we had uncovered discrimination among the Nation of Islam affiliates that individual housing authorities have hired to do security work, as in Baltimore and Chicago and other cities.

We are now doing that survey to determine whether or not general allegations in the press and complaints from religious organizations nationally have any merit, and as soon as we have an analysis, we'll make a public comment about that.

I might say to date we've not encountered any grounding to those, any grounds for action against those affiliates.

Mrs. MORELLA. When do you think the investigation will be completed?

Secretary CISNEROS. I should think it's a matter of weeks.

Mrs. MORELLA. Great. Thank you. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Mr. SHAYS. Mr. Peterson. I just would point out again that Mr. Peterson was the chairman overseeing HUD and is very familiar with a lot of these issues, and we look forward to his contributing to this committee and welcome him here today.

Mr. PETERSON. Thank you, Mr. Chairman. And I must say, Mr. Secretary, you've come a long way from where we started a couple years ago, and I applaud that.

Having said that, I'm probably the only person in this room who thinks that you still haven't gone far enough, but I think we're definitely moving in the right direction.

I have to say I'm somewhat skeptical and not exactly clear on how you're going to deal with these large housing authorities that have been troubled, some of them for the last 12 or 13 years.

The one comment that you made, is that in this plan, you give more control to the local jurisdiction, when I think, in some cases, the problem is the local jurisdiction. They have caused the problem. So at some point I guess I'm going to have to——

Secretary CISNEROS. Let me, if I may, give you just a——

Mr. PETERSON. Well, I didn't want to take my whole time.

Secretary CISNEROS. I'll give you one sentence, and that is receivership. You might have noticed in today's Washington Post we're recommending receivership for the District of Columbia Housing Authority. That's one example of where a court can be an important ally in changing the structure.

Mr. PETERSON. Well, we have problems there, and I guess I'd like to talk a little bit so I can get a better understanding of how you plan to get through this and go to vouchers, which I agree we need to do.

You made the comment that you're going to see the project-based assisted housing through to the end, which troubles me as well, because frankly, I think that we need to bite the bullet on some of these projects.

Some projects are not salvageable, and the quicker we can put them into the marketplace and recognize that they're going to go out of business and we bite the bullet, the better off we are.

So I was just wondering how, in this plan, is it going to work? How much time is it going to take to shift from the one system to the other not only in the project-based assistance but also in these projects that are funded—I don't know what the terminology is, but where you're just giving a subsidy out to the local housing authority.

They put in a budget, and you give them a subsidy to run the system, which I think is a lot of how the larger housing authorities operate.

Secretary CISNEROS. Right.

Mr. PETERSON. Is that going to be shifted to vouchers?

Secretary CISNEROS. Correct.

Mr. PETERSON. And I guess what I'm interested in is the timeframe.

Secretary CISNEROS. Let me distinguish between two different systems. One is public housing where we fund housing authorities directly, and the other is assisted housing, which we do out of FHA, which is private owners.

First of all, the question that was asked of me was whether we intend to meet our commitments to those private owners who built private housing with a commitment that we would see out our commitment and are doing a good job. The answer is yes. That's good, quality housing.

Mr. PETERSON. So you will not switch those to the tenants? You will not give the tenants the vouchers?

Secretary CISNEROS. No. That is a different system, and that isn't the system that goes to certificates except in the cases——

Mr. PETERSON. So you are not shifting the entire system to vouchers for the tenants?

Secretary CISNEROS. Public housing.

Mr. PETERSON. You're shifting that system completely?

Secretary CISNEROS. Yes, sir.

Mr. PETERSON. But the project-based assisted housing you are not shifting?

Secretary CISNEROS. That is correct.

Mr. PETERSON. Unless they're in trouble?

Secretary CISNEROS. That is correct. That is correct. That's FHA, and it's a different set of commitments than our commitments in public housing.

Mr. PETERSON. So then, what are you going to do with the people that we had before us in our Committee, those particular projects?

Secretary CISNEROS. Public housing or assisted?

Mr. PETERSON. Assisted.

Secretary CISNEROS. Assisted. You mean where the stuff is really bad?

Mr. PETERSON. Yes.

Secretary CISNEROS. Those people will get certificates.

Mr. PETERSON. So you're going to make a project-by-project determination?

Secretary CISNEROS. Correct. Absolutely.

Mr. PETERSON. Who should get certificates and who shouldn't?

Secretary CISNEROS. Absolutely. That's the way it will work.

Mr. PETERSON. At the time that we had the hearing you couldn't identify which ones are troubled. Where are you in that whole process?

Secretary CISNEROS. Well, one of the things we have is what we'll call SWAT teams of experts who are going out literally and surveying properties to determine what kind of condition that they're in.

A lot of times we don't have to even send people out ourselves. We get people come to us. For example, the mayor of Cincinnati came to me recently and wanted me to go and take a look at a place called Richmond Hills, just a terrible property.

The property is terrible. The site is terrible. The area around it is in bad shape. It was in an industrial district. The best thing to do is to give the people certificates, allow them to move and tear

that place down. It just has no place anymore in the inventory. So that's the kind of judgments we'll have to make.

Mr. PETERSON. It seemed to me that when we were talking about the SWAT teams that it was going to take you some considerable period of time to get through the entire inventory. I mean, what you had put in place would allow you to just get through a very small portion of them.

Secretary CISNEROS. That is true.

Mr. PETERSON. So how are you going to deal with all the rest of these on a realistic basis, or are you going to just let this drag out for 5 years?

Secretary CISNEROS. No. The SWAT teams are designed to act on the worst of it, and then we've increased the staffing substantially at FHA for the purpose of focusing.

We think, as somebody asked me earlier, that getting the right type of expertise for FHA will make a big difference at FHA.

Mr. PETERSON. Just one final thing, if we go through with this and we give the people the vouchers and they move out and the project collapses, a lot of this stuff I think the FHA is guaranteeing the mortgage. Is that not correct?

Secretary CISNEROS. Yes.

Mr. PETERSON. You're intending, then, to absorb that loss? My question is, that in your budget or is there money allocated to pay for the potential bankrupting or whatever happens?

Secretary CISNEROS. Yes, sir. The budget includes what is called preservation funds for the purpose of dealing with these issues of rehabilitating or preserving that which can be preserved and making arrangements for people who would not.

In some instances, demolition is necessary. In other instances, there are nonprofit groups who want a crack at the property outside of government hands, that kind of thing. So it's not all an absolute loss.

Mr. PETERSON. Mr. Chairman, if I could, just to conclude this, that my current concern is still do you really know how big this problem is? My sense was in the hearings, when you were setting up the SWAT teams, that you kind of had an idea of what the worst of it was.

What I'm concerned about is how you can know how much to put in the budget when you don't really know how big the problem is? Are you just kind of guessing?

Secretary CISNEROS. Well, let me get Nick Koutemas to have, perhaps, a visit with you about the systems that he's put in place that will allow him to identify just how much of the property is in what kind of condition.

But in terms of the macro picture, how many units do we think are troubled, how many developments do we think are troubled, I think he's got a pretty good fix on that.

Now, unit-by-unit, family by-family, that's another question, but I'll get him to visit with you, and I'll look forward to that myself.

Mr. PETERSON. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Mr. SHAYS. Mr. Secretary, the Budget Committee is encouraging downsizing, elimination, and so on. The Appropriation Committee

is weighing in. The Banking Committee actually deals with certain authorizations and establishment of programs.

We are going to weigh in in terms of the whole issue of reorganization, and one of the interesting challenges for this committee I might share is that we have five departments of which all of them we're going to be looking at and deciding what you can accomplish in the first year and what you can accomplish in the second.

I have some sympathy for your sense that maybe we can do more in certain areas. The one advantage you have given the committee is that you are weighing in with a thoughtful proposal, and it gives us a little bit of a head start.

I want to just share with you a general concern about the committee effort. We're going to also be tracing intergovernmental relations issues, which is the whole concept of federalism and trying to determine how much of $100 appropriated gets to its destination. Is it $60 when it finally reaches the destination, and what can we see getting to that final destination?

We're going to want to see if there are real reductions in the work force, as you hope there will be, are there real reductions, real cost savings, unlike what we did in Connecticut. When we reorganized, we simply changed everything, and it cost us more, not less. So we're going to be looking at that.

I'd love to just kind of run through some of these charts. We don't need the 5-minute rule. We may run through some of them fairly quickly, and then we can go on.

My question with this first chart here—and my objective would be to get us out of here by 2:50 to allow the Committee to be set up for our 3:15 meeting.

My question here on this first chart, and then others can weigh in as well, is you go from eight to three, and I'm asking myself why we should bypass the eight and not just go to the three in 1997?

I notice with one of them you basically keep the same, the Community Opportunity Fund. So it's really the other two that you're kind of narrowing down. Why two stages?

Secretary CISNEROS. Because this is big change, and it's very, very difficult, and frankly, they need some time. For example, we've only recently had begun to have what I would call, you know, effectiveness out of our homeless programs.

We ask that they be consolidated as homeless programs. You see a Homeless Assistance Fund. That allows homeless providers to get their feet on the ground. Some of them are relatively new. Let's get our programs operating clearly and then several years later put them into the mix with everybody else.

They just need a little more time focusing on homelessness as a problem before they're put into the mix of all of the other efforts.

Mr. SHAYS. I'm going to look for short answers like that. It will be helpful, and then we can go through.

Secretary CISNEROS. And then at the top the public housing I have described how complex it will be to go to the vouchering system. The vouchering system is the end.

You see housing certificates for families and individuals. Before that, we would create chaos if we simply went to a certificate before the housing authorities had a chance to get their units up to speed.

Mr. SHAYS. The Community Opportunity Fund and the Affordable Housing Fund, would they both be block granted based on some formula?

Secretary CISNEROS. Yes, sir.

Mrs. MORELLA. Mr. Chairman?

Mr. SHAYS. Let's just weigh in.

Mrs. MORELLA. No, just on this point. This, then, means that ultimately you're going to be pitting three groups for money when you go to affordable housing. You're going to take AIDS and homeless and disabled. Do you see that as a possible problem?

Secretary CISNEROS. Pitting is not the right word, because it's the same amount of money. If it were less money, then we would say we were pitting them to fight with each other. But we're saying the same amount of money, but they have to compete—not compete, they have to respond in the context of a community plan.

Right now they're applying against impossible odds. I mean, when we put out $100 million of homeless money, we have $1 billion worth of applications.

So it's not as if the world is going—it's just the focal point changes from applying to Washington and us keeping bureaucracy here to do that versus doing it at the community level.

Mr. PETERSON. Just so I can better understand this, when you're all done, you are going to be out of the business of providing capital to build projects?

The money that's going to be available is going to be in vouchers, and by combining those vouchers, that's how the project is going to be viable?

Secretary CISNEROS. Exactly. The way a housing authority, and we're talking about the housing authorities now, not the FHA piece, but the way a housing authority succeeds is it's a good property manager, and it fills its building, and each one of those persons has a certificate, and the certificate is enough for the housing authority to succeed.

Mr. PETERSON. Now, what happens to those housing authorities that are operating under an operating subsidy agreement with you where you've been giving them X-amount of dollars every year? That's going to be converted to certificates?

Secretary CISNEROS. Certificates.

Mr. PETERSON. Now, if certificates are not enough——

Secretary CISNEROS. They will be enough.

Mr. PETERSON. Well, I've looked at a couple where I'm not so sure.

Secretary CISNEROS. They will be enough because they have no debt, and they will be enough because we're pricing them in the same way that a private landlord can operate with them, and the private landlords have debt, and the housing authorities will not have debt.

Mr. PETERSON. Well, how are you going to price these?

Secretary CISNEROS. We're going to price them at fair market rent for the area as a whole the same way we price Section 8 vouchers today.

Mr. PETERSON. You're going to use the FMRs then?

Secretary CISNEROS. Exactly. We're going to price them at 40 percent at fair market rent, and it is our estimation that at that

price range, given that they have no debt, a lot of the housing authorities will do very well as real estate managers.

Mr. SHAYS. Can we go to the next chart?

Secretary CISNEROS. As property manages, I should say, not real estate, but property.

Mr. FATTAH. But the point here is that we really are suggesting that the housing authority is not the constituency that we're trying to focus on here.

Secretary CISNEROS. Correct.

Mr. FATTAH. We're trying to empower the tenant.

Secretary CISNEROS. Correct.

Mr. FATTAH. Now, I'd like to take this a step further.

Secretary CISNEROS. May I make just one quick point? The point also is, to go back to your point about timetable, that that's why you need that intervening period, because the housing authorities are—it's going to take a little time before they can get their units up to speed and competitive with the stuff that they're operating today.

They need about 3 years' worth of that capital fund and 3 years' worth of other funding before we can ask them to compete as you suggested, heads up.

Otherwise, it will be chaotic. The people will leave like that, and there is no chance that the housing authorities will compete.

Mr. FATTAH. Let me just say, Mr. Secretary——

Mr. SHAYS. You got him excited. That's the reason.

Mr. FATTAH. It wouldn't be all so bad if they left sooner, but I do understand that we have to have some continuity in the process.

But I think it is an important point that the effort here on behalf of the American taxpayers who are paying the bill is to try to provide decent housing for families who need help and not to try to take care of housing authorities.

Housing authorities, if they want to be of assistance in that process, need to produce the units and to do that in a way in which people would want to live there. Heretofore, in many locations, that's not been the case.

But let me take this a step further. In the Section 8 and in these new vouchers, will there be circumstances and can we start to think now about the possibility of having people be able to use what are, essentially, rent subsidies as ways that we can provide the same dollars to them but so that they could actually be used to subsidize either rent or mortgage payments?

Secretary CISNEROS. Yes.

Mr. FATTAH. That build equity for these families so that we're not providing these subsidies in a way in which we're just enriching landlords but that we could actually be empowering people to own a piece of the rock.

Secretary CISNEROS. It's a wonderful idea, and the answer is yes, we're working on it, but let me tell you the dilemma we face.

First of all, the theory is if right now we're using Section 8 certificates to go to landlords who, in turn, are paying the bank with the proceeds of that so they are becoming owners of property that they borrowed for with landlords and with tenants with government certificates, why not make the certificate go directly to the

tenant, who pays a bank payment himself or herself and becomes an owner?

Mr. FATTAH. Or at least has the option rather than paying the money for rent.

Secretary CISNEROS. A lease-purchase kind of structure would be perfect. The only problem we have not yet gotten around, and we think we can, but the problem we've not yet gotten around is this:

The bank wants long-term assurances of income and collateral. The certificates have been 5-year certificates for tenants, and we're now moving toward shorter three and 2 year.

So how do we assure the bank when all they've got is a person who has 2 years visible income that they ought to give them a bank loan? So that's the dilemma that we have to get around, but we're working on it.

Mr. FATTAH. I'd like to invite your staff, I'd be interested in trying to help think through those issues.

Secretary CISNEROS. Great.

Mr. FATTAH. I think they're solvable.

Secretary CISNEROS. That will be great to work with you on that issue.

Mr. TOWNS. Along that note, Mr. Secretary, it seems to me that a whole lot of technical assistance will be needed. I looked at the chart you had earlier in terms of the historical black colleges. In terms of technical assistance dollars, will that be at the same level?

Secretary CISNEROS. The historically black colleges and other university programs? What was that under?

Mr. TOWNS. Under Community Opportunity Fund.

Secretary CISNEROS. Will probably not be consolidated that way. We have, in our policy development and research organization, an office we call Office of University Partnerships.

We will probably put the historically black colleges in there so it doesn't become part of this blocking-up process. It stays part of HUD's relationship with universities. It just doesn't belong in a local housing, Affordable Housing Fund. It doesn't make sense.

Right now we relate to historically black colleges but also other universities across the country to help try to create housing and economic development in university neighborhoods. We need to continue that, but it wouldn't be part of the blocking-up process.

Mr. SHAYS. Let me try to go through some of the other charts. This other chart is just, I think, obviously, just showing——

Secretary CISNEROS. The next four are just detail.

Mr. SHAYS. Yes. Why don't you just pull each one and see if a member has a question. I don't have a question on that one.

Mrs. MORELLA. Do you still think that the same amounts of money will be going to these areas?

Mr. SHAYS. That's what he's advocating. We have to decide that.

Secretary CISNEROS. You know better than I.

Mrs. MORELLA. That's a tough one.

Mr. SHAYS. I don't think the same amount of money will be going.

Mr. TOWNS. We're impressed with the proposals. We should try to work toward that end.

Mr. SHAYS. And there you're suggesting that there will be a freeze in 1986 of that same amount?

Secretary CISNEROS. Yes.

Mr. SHAYS. OK. Same amount there. OK.

Secretary CISNEROS. That's the homeless programs, McKinney Programs.

Mr. SHAYS. OK.

Mrs. MORELLA. Do you see the savings coming from administrative changes and shifts? Have you estimated what the amount is?

Secretary CISNEROS. $800 million.

Mr. SHAYS. We're going to get to that chart, I hope, eventually, because to me part of the reason for doing it is to make sure we provide better programs, as you all point out and as Connie has pointed out as well. But then, obviously, we're hoping to find some savings here.

Mr. PETERSON. In the news accounts, you were going to be closing down or changing some of the worst projects in public housing. The Desire project was one that was mentioned.

Mr. SHAYS. Is that a chart we're going to be coming to?

Secretary CISNEROS. No. You were going to come to that.

Mr. SHAYS. OK.

Mr. PETERSON. I was at the Desire project and met with the tenants. I spent a day there, and I read in the news accounts that they were going to move these people. And some of it was going to be rehab, and some of it was going to be torn down.

The tenant group that was elected by the folks told me that they did not want to move. What also troubled me when I was visiting Desire, was that the IG had been down there a number of times and never talked to the tenants.

So my question is, are the tenants in agreement with whatever the plan is, and have they been talked to in this process?

Secretary CISNEROS. The answer is yes. They have been talked to. I have been to Desire, and I've talked to the tenants, and the number at Desire slips my mind, but it's maybe a third occupied.

Mr. SHAYS. Are two-thirds vacant?

Secretary CISNEROS. Yes, sir.

Mr. PETERSON. They're in shambles.

Secretary CISNEROS. That's not the worst. We've got one that is 3,700 units that has 800 people living in it.

Mr. PETERSON. What that suggests, is that tenants are concerned that what they're going to go to is going to be even worse.

Secretary CISNEROS. No. What it suggests is that people are petrified. They're totally dependent on this housing, and as bad as it is—the day that I was there, a body was found on the street, literally dumped on the street outside the project.

But the answer is we're talking to the tenants. The conversation I had with them they want to keep a very small number of single-family and duplexes and so forth on the site and tear down most of the rest.

Most everybody else, experts that look at Desire say that it ought to be taken out completely, completely, the bad site, to start with; it's hard to get to. It was almost built as an island so that it could be remote from everything else, as you know.

The mayor is working on what the plan ought to be, but 500, as you can see there, 660 as I recall, about half of the units. So it still leaves about 600 on the site.

Mr. SHAYS. If I could, I'd like to just go through these charts. Is that all right with you? If you have another follow-up—but I would really like to get to these charts.

Secretary CISNEROS. First step, public housing.

Mr. SHAYS. Right. Deregulating 3,000. Well, how many would not be deregulated?

Secretary CISNEROS. 105.

Mr. SHAYS. That's all. OK. Anybody have a question on this chart? OK.

Secretary CISNEROS. Actually, the 105 will also be deregulated, but they're going to have to undergo some special process, like receivership or something else.

Mr. TOWNS. But that is the 105 troubled housing authorities.

Mr. SHAYS. But we're trying to determine—Mr. Peterson, I think your concern is that there are probably more than 100 that are troubled.

Mr. PETERSON. No. That's not my concern. My concern is that——

Mr. SHAYS. I'm sorry, some of the units.

Mr. PETERSON. Giving them more power to the local community, frankly——

Secretary CISNEROS. Is not the answer.

Mr. PETERSON. My experience with this that the local community is the problem, and they're unwilling to do what needs to be done, in some cases.

I think in New Orleans some of that blame falls on the local community and Philadelphia, and DC, obviously, places that I've been. It's a tough problem.

Mr. SHAYS. Sure. And we did the HUD investigation a few years ago with Tom Lantos. I mean, our general sense was that we then needed to go to the next level. And you were getting into it, but we never have resolved——

Secretary CISNEROS. We have reserved Section 8 certificates for the purpose of, Mr. Chairman, this is going to be dramatic this year, for the purpose of giving housing authorities in the worst cases certificates to get the people out and tear them down now. That's what we would did in those cases.

We've reserved about 5,000 certificates to try that immediately on an emergency basis, and Desire would be a candidate for that.

Mr. PETERSON. Well, Mr. Chairman, if I could just follow this through. When I was there, they had a fence built around it, and they were actually redoing one-fifth of the project, and there was a plan.

Secretary CISNEROS. Right.

Mr. PETERSON. What have you done, then? Is that stopped?

Secretary CISNEROS. No. On Desire?

Mr. PETERSON. So you're redoing that part of it?

Secretary CISNEROS. Yes, sir. You see 660 here for Desire.

Mr. PETERSON. Right.

Secretary CISNEROS. As I said, that's about half. We're still negotiating with the tenants how much remain, 600 or 300, but that's the size range.

Mr. PETERSON. So the rest of the project, then, you're just going to tear it all down and build single-family in there?

Secretary CISNEROS. No. What the mayor would like to have us do is use Section 8 certificates to allow people to rent and rehabilitate some 37,000 vacant single-family houses that exist in New Orleans because of the oil bust. And they have literally a reservoir of 37,000 houses that are empty in neighborhoods.

Mr. PETERSON. But the rest of them will be empty then.

Mr. FATTAH. Mr. Chairman, which is the point that we tried to make in Philadelphia, which is that it makes absolutely no sense to be modernizing these high-rises in a city where we have 25,000 vacant row homes in neighborhoods that could be the solution to a number of problems all at the same time.

So the notion of empowering individuals to be able to make some choices in this process would be helpful, and it also, if worked in conjunction appropriately with the Community Development Block Grant, creates a dynamic in which the city and the tenant leaders could make some decisions.

Secretary CISNEROS. The affordable housing plan.

Mr. FATTAH. Whatever the new lingo is, affordable housing plan.

Mr. SHAYS. Is this the——

Secretary CISNEROS. This is the first step in transformation of public housing.

Mr. SHAYS. And your vision would be that public housing would compete for tenants like anyone else?

Secretary CISNEROS. Eventually.

Mr. SHAYS. Eventually.

Secretary CISNEROS. That's the third step. In the first step, all we're doing is deregulating and consolidating the funds so we remove these crazy anomalies like not being able to tear something down because all we have money for is modernization.

Mr. SHAYS. OK.

Secretary CISNEROS. And that's what this does.

Mrs. MORELLA. You are eliminating, public housing coordinator——

Mr. SHAYS. A little closer to the mike, Connie.

Secretary CISNEROS. They're not eliminated. They're put into a capital fund, and the housing authorities will get a formula-based grant so they can use the money more flexibly.

Mr. SHAYS. They must love this part of the——

Secretary CISNEROS. They do love it. The first step of our three steps has unanimous—consensus is too weak a word. It's like jubilation.

Mr. SHAYS. Right. The question is we got to make sure they spend it within some realm of design here.

Secretary CISNEROS. This is how we begin to block up the certificates.

Mr. SHAYS. Any question on this one?

Mrs. MORELLA. Well, on your certificates again, I want to bring up the point Mr. Fattah did——

Mr. FATTAH. Fattah.

Mr. SHAYS. We're going to get it right. Fattah.

Mrs. MORELLA. Fattah.

Mr. SHAYS. You can be chairman if I don't get this by the third one.

[Laughter.]

Mr. SHAYS. I'm sorry.

Mrs. MORELLA. I do think that it is important that we look to the quality of the housing, too, because people can have vouchers, but they're not going to go into something that, as you indicated, is crime infested. Again, that's where accountability I think is important.

Secretary CISNEROS. We have problems on both sides of the equation. On the one hand, we have quality problems making sure that were doing inspections and making sure the housing is of quality before the people get there, and then other people will tell us that we have a problem with after Section 8 tenants get there, that they are a problem for the neighborhood.

So we have problems on both sides of that equation, and there is plenty of evidence and anecdotal commentary on both sides.

Mr. SHAYS. My biggest concern with Section 8 and the certificates is that sometimes we pay above-market rate. We think we're paying market rate, but as your hearings pointed out, we were paying market rate, so-called, for slum conditions that nobody else would actually pay that rate.

Secretary CISNEROS. That's the inspection problem.

Mr. SHAYS. Yes.

Mr. FATTAH. Well, in addition, in dealing with certain populations, I mean, we have refugees from Southeast Asia in Philadelphia who have been living in conditions under private ownership that are worse than some of the public housing developments because they don't have a sense of how to negotiate their way through the process. So you can create other dynamics, too.

Mr. SHAYS. Any questions on this one? Why don't we go to the next one, then. I realize this is a big issue and we're going to have to get back into it, but I'm looking for the areas where it's not making sense to me.

Any question on this one? I'm interested to, kind of, get into the numbers here. I didn't understand this chart at all.

Secretary CISNEROS. This is our budget. This is the President's budget.

Mr. SHAYS. I'm sorry. So this isn't the reorganization issue.

Secretary CISNEROS. This is the President's budget.

Mr. SHAYS. That's why I didn't understand. OK. The big challenge for HUD is that 90 percent are long-term obligations?

Secretary CISNEROS. That's correct. Every time people try to cut HUD outlays they run into contractual realities.

Mr. SHAYS. So, basically, you're saying 12 percent of your budget?

Secretary CISNEROS. Yes.

Mr. SHAYS. OK. Next one. That fell the last time, too. That chart we must take a look at.

Secretary CISNEROS. It just stipulates our priorities for the last 2 years and how we intend to be consistent with those priorities.

Mr. SHAYS. OK. Let's take the one with the numbers.

Secretary CISNEROS. Bruce, do you have a couple there that we didn't go through before? Because this was not a budget presentation per se, but it describes how we come up with $31 billion worth of savings over 5 years in budget authority and 15 years of savings—I mean, $13 billion.

Mr. SHAYS. Let me just say to some who think they know your plan are suggesting to me that some of the savings are just being transferred to others. The reduction from 12- to 7,000 is going to be picked up somewhere else.

Secretary CISNEROS. Not true.

Mr. SHAYS. Not true. That's where I'm trying to be——

Secretary CISNEROS. I think what they may be saying is some of it is accounting. For example, instead of accounting for all of 3 years of Section 8 renewals we are now going to extend only 2-year contracts, or we save money because we have to budget only 2 instead of 3, so a third of the cost.

Mr. SHAYS. Right. But that's not a savings, then.

Secretary CISNEROS. It's not a real savings. We're held to an unreasonable standard in the accounting. No other department, not even the Defense Department, has said that it has to count everything for the future in this year's budget.

Mr. SHAYS. OK.

Mr. PETERSON. Mr. Chairman?

Mr. SHAYS. Yes, sir.

Mr. PETERSON. Last year some of the changes that we had recommended, and that you said you needed to accomplish, some of this were in a bill and it died. Do you not need significant legislative changes in order to accomplish this?

Secretary CISNEROS. Absolutely. This is dramatic reauthorization as well as appropriation.

Mr. SHAYS. I'm missing it. The reorganization will have to go through this committee. Are you talking about just the general—because one of the things we haven't—I'm sorry.

Mr. PETERSON. Mr. Chairman, there has to be changes made by the Banking Committee and also by the Appropriations Committee, and frankly, a lot of the problems that they're having to work through were caused by us, by legislation that we passed that sounded good at the time that turned out to be the problem.

In the past, it has been very difficult to get some of those committees to admit that what they did may have not been the greatest idea.

So my question is are we going to be able to get the kind of changes we need in those other committees to accomplish what you want to accomplish?

Secretary CISNEROS. We expect to appear over the course of this spring before the housing authorizing committees, House and Senate, for the purpose of attempting to get a housing bill that includes these changes that are required.

Mr. SHAYS. Program changes?

Secretary CISNEROS. Yes, sir. For example, when you consolidate 60 programs to 3 and virtually every 1 of those 60 is statutorily approved, that is authorizing——

Mr. SHAYS. Correct. That is. Just quickly run us through the 12 billion here. Bruce, are these actual savings or some cases accounting changes?

Mr. KATZ. No. These are actual outlay savings involving Fiscal 1996.

Mr. SHAYS. OK. The challenge we have for the recorder is that—if you could just bring that mike and maybe even—I don't think you can pull it, but at least you can get it closer to you.

Mr. KATZ. Let me just sit here for a second.

Mr. SHAYS. You can sit down there. That's fine.

Mr. KATZ. The first line are policy changes to rental assistance. The Secretary described most of those. Those are changes in the admission rules in public and assisted housing to favor working families.

Secretary CISNEROS. Tilt toward working families means they pay more money because a third of their income is more than for people who are not working.

So if we tilt toward working families, which is a right thing to do from a perspective from what makes a building work, we have a mix of incomes in the building, every expert will tell you that's the most important thing you strive to do.

We've done the opposite in recent years. What we get through income mix it also works better financially. We save money.

Mr. KATZ. It incorporates the mark to market changes on the older subsidized inventory. As we reduce the inflated debt on these properties, we'll also reduce the rental subsidies. It also incorporates reductions in the fair market rent for both tenant-based and project-based certificates.

Across the board reductions in Fiscal 1997 to Fiscal 2000, the President expended the caps, the caps on discretionary spending in Fiscal 1999 and Fiscal 2000. Those account for those.

Streamlining HUD, as the Secretary talked about, we're reducing our work force from 12,000 FTE's to 7,500 FTE's. That's $800 million over 5 years.

Mr. SHAYS. And that happens by the year 2000?

Mr. KATZ. That's right. That's correct.

Mrs. MORELLA. 12,000 to 7,500?

Mr. KATZ. That's correct.

Mr. SHAYS. And those people aren't being transferred elsewhere? They're actual reductions?

Mr. KATZ. That's right.

Mr. SHAYS. Some layoffs?

Secretary CISNEROS. Start with buy-outs and early outs and then reductions-in-force beginning next fiscal year.

Mr. SHAYS. If I could just say, we have about two more minutes, and then we need to clear. Mr. Fattah.

Mr. FATTAH. Haven't you already reduced the personnel complement at the Department, and could you reflect that in your comments?

Secretary CISNEROS. From 13,500 to about 12,000, but this now is a big step to 7,500.

Mr. FATTAH. OK. Thank you.

Mr. SHAYS. Is there any other chart we should look at?

Secretary CISNEROS. We only have one more, and that's the budget authority chart.

Mrs. MORELLA. What were those performance bonuses?

Mr. KATZ. 10 percent of the formula funds will be held back and will be rewarded to those jurisdictions that meet their performance

measures. That's part of the new performance partnership that we propose. So there is more accountability in the system.

Mrs. MORELLA. That was a reduction, I thought.

Mr. KATZ. No, performance bonuses for the program.

Mr. SHAYS. I'm going to have to call this hearing to a close because we have to give the committee total jurisdiction here. Mr. Secretary, you've started us on our way. You have been a wonderful witness. You have honored the committee, and it's been a privilege to have you. This hearing is adjourned.

[Whereupon, at 2:50 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

OVERSIGHT HEARING ON THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT—DAY TWO

WEDNESDAY, FEBRUARY 22, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HUMAN RESOURCES AND
INTERGOVERNMENTAL AFFAIRS,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 2247, Rayburn House Office Building, Hon. Christopher Shays (chairman of the subcommittee) presiding.

Present: Representatives Shays, Souder, Morella, Martini, Towns, Fattah, Collins.

Staff present: Lawrence Halloran, staff director and counsel; Damaris Greatorex, Robert Newman, professional staff; Thomas Costa, clerk; Bud Myers, minority staff director; Cheryl Phelps, minority professional staff; and Elizabeth Campbell, minority clerk.

Mr. SHAYS. We're going to convene this hearing and invite our first panel, Susan Gaffney and Judy England-Joseph, to come, and come with whomever else they have with them.

I'd like to note the presence of our members who are here right now, Bill Martini and Mark Souder, and would state for the record that we are convening this hearing without a Democratic member here. I'm going to be religious on making sure that comments are made that are appropriate, given that there is no one from the other side to counter them. I'm talking, basically, to those sitting on this side.

I'd like to welcome our witnesses. This is the second hearing that we are conducting on HUD. We had the Secretary last week and now we have the inspector general for HUD. We have a representative from the General Accounting Office, we have someone from the Hudson Institute and the Chicago Housing Authority and the National Low Income Housing Coalition. We'll have two panels.

I will swear in our witnesses and ask that all stand, since you will be testifying. This is something that we do for all witnesses.

[Witnesses sworn.]

Mr. SHAYS. I'm going to insert, for the record, a statement, and would invite either of the members who are present to make a statement and to submit anything for the record.

[The prepared statement of Hon. Christopher Shays follows:]

PREPARED STATEMENT OF HON. CHRISTOPHER SHAYS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

This is the second oversight hearing to be held by the Subcommittee on Human Resources and Intergovernmental Relations in the 104th Congress, and the proceedings again involve the Housing & Urban Development Department under the heading: "Cost Savings Before and After the Blueprint."

The first hearing, held February 13, heard testimony from HUD Secretary Cisneros on the department's mission and blueprint for the future.

Today's hearing continues to examine closely the mission, management, plans, programs and potential cost savings at HUD. Witnesses in today's hearing are from the Government Accounting Office, the Office of Inspector General at HUD, and others from the public and private sectors familiar with HUD operations and programs. We look forward to their comments, criticisms and recommendations.

The Administration's blueprint to reinvent HUD calls for $51.4 billion in budget authority savings over the next five years. We will look closely at their 5-year plan to see if those savings or more can be reached by FY 2000.

We wish to thank all the witnesses here today for their time, interest and willingness to share their views in these deliberations to help the Subcommittee identify opportunities within HUD for cost reduction, improved efficiency and needed reform. We plan to continue to address such questions in all HUD hearings as: Has the agency strayed from its original mission? Are there overlaps between the current mission of HUD and other agencies? Is HUD capable of carrying out its mission with the organizational structure and management systems now in place?

As stated in the first hearing with Secretary Cisneros, we on the Subcommittee want to know what HUD is doing right as well as what HUD might be doing wrong.

In exercising its oversight and reform responsibilities, this Subcommittee will continue to hold hearings on those departments and agencies within its jurisdiction. In addition to HUD, we have scheduled March hearings with the other cabinet departments in our preview: Health & Human Services; Education; Labor; and Veterans Affairs. The cabinet secretaries of these four departments will also be initial witnesses, followed in subsequent hearings by OIG, GAO and perhaps other public or private experts.

The Subcommittee will work closely with state and local governments in our oversight and reform activities. It will assess the intergovernmental impact of federal programs and, working with governors and mayors, try to determine what national level programs can be done better at other levels and locations.

Again, we are pleased to have these witnesses here today and look forward to their opening statements and to the discussions that follow.

Mr. SHAYS. We'll say from the outset that we'll be asking our witnesses to summarize, to give us the bottom line and to respond to questions. I would note that any material they have to submit to the record will, in fact, be submitted for the record, unless there's an objection.

I'll repeat that to the minority members to make sure they have no objection. It's pretty pro forma.

Mr. Souder, do you have any comments you'd like to make?

Mr. SOUDER. No.

Mr. SHAYS. Mr. Martini?

Mr. MARTINI. I don't have anything.

Mr. SHAYS. OK. I would call on our first witness, Susan Gaffney, the inspector general, to present her testimony. Welcome. I appreciate the fine work you and your people are doing at HUD.

STATEMENT OF SUSAN GAFFNEY, INSPECTOR GENERAL, DEPARTMENT OF HEALTH AND HUMAN SERVICES, ACCOMPANIED BY: CHRIS GREER, ASSISTANT INSPECTOR GENERAL FOR AUDIT, DEPARTMENT OF HEALTH AND HUMAN SERVICES; AND JUDY A. ENGLAND-JOSEPH, DIRECTOR, HOUSING AND URBAN DEVELOPMENT ISSUES, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY: DENNIS FRICKE, ASSISTANT DIRECTOR RESOURCES, COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION, GENERAL ACCOUNTING OFFICE

Ms. GAFFNEY. Thank you very much, Mr. Chairman, members of the subcommittee. I am delighted to be here and I hope that, as we discuss these reforms at HUD, it's clear to you what a great role this subcommittee has had in bringing about this discussion about needed reforms. I think particularly the series of hearings that were held last year have been very important.

My written statement has three parts. First of all, OIG comments about the Blueprint; two, OIG suggestions for legislative action apart from the Blueprint; and three, HUD management issues that need to be addressed and should be addressed, apart from any legislative action.

I think you'll find that the written statement is quite comprehensive, and we've done that deliberately. It may be a tough read but what we wanted to try to do for you was give you a checklist of things that we think are important, as the legislative process proceeds.

This morning, all I'm going to do is hit a few key points of the written statement.

First of all, IG's are not often positive, but I want to tell you straight off that we see the Reinvention Blueprint as a bold step in the right direction. It's been a long time coming.

We see it as an opportunity to reduce administrative burdens in HUD and on the people HUD deals with, a way to increase local decisionmaking and flexibility, and, hopefully and most importantly, a way to start putting HUD assistance more directly in the hands of the people who need it, rather than the people who are benefiting from it in the middle, such as owners, agents, and intermediaries.

I should tell you that part of the reason that we support the Reinvention Blueprint is that we had actually done a major piece of work in this area. The Secretary asked us, in September, to look at opportunities for eliminating, consolidating, and restructuring HUD programs. We did that, and many of the concepts in the Reinvention Blueprint parallel the most dramatic change recommendations that we made.

However, I'm sure it's apparent to you—it's certainly apparent to me—that the Blueprint is in skeletal form. There are few details and it's very difficult to know what we have on our hands at this point without those details. However, there are some things that I think you should be watching for and try to make sure are addressed.

At a policy level, one of the things that the Blueprint avoids totally is any discussion of relationship to welfare reform, and I think

that needs to be on the table. I'm not saying that I know what the right answer is, but it needs to be discussed.

HUD programs are reaching only about one-third of the people who are eligible for them. There is an enormous difference between what HUD is investing in housing assistance versus the shelter allowance under welfare, and that difference needs to be rationalized. We need to be clear in our minds why it exists, for what purpose; and I don't think that that discussion has even begun.

A related policy issue is the housing quality standards at HUD. The housing quality standards are the pivotal point which underlies all of HUD's housing assistance. Because local codes are not prevalent everywhere in this country, HUD has, for its housing programs, essentially established its own codes.

Those kinds of codes are absent in the shelter allowance portion of welfare. It's a big distinction. You need to focus on that, whether it's raised in the Reinvention Blueprint or not, for a number of reasons. One, because housing quality matters but, two, the setting of those kinds of standards tends to drag with it bureaucracy, enforcement, questions about what do you do if people do not comply—all those kinds of issues.

Those are issues for you. They are policy issues, and they are generally outside the purview of an OIG. Our concern is more directly with the implementation of this Blueprint; and I must tell you that I have grave concerns. As attractive as these concepts are, we have grave concerns about whether HUD is in a position to implement them.

Let me start off by saying to you that this Reinvention Blueprint was announced simultaneously with the announcement of a staffing cut in HUD of 4,400 FTE. Now, I know everybody likes to hear about staffing cuts and cuts in administrative costs, and I think it's possible that, when HUD is reinvented, it can make do with 4,400 fewer employees or maybe 7,000 fewer employees, but there's a bottom line here.

HUD has no resource allocation system. There is no analysis that underlies this staff cut at all. In my judgment, from what we know about the Reinvention Blueprint, it looks to me as though there's a lot more work that has to be done in the next years, in the years of transition, not less work. This kind of approach really is penny wise/pound foolish and what Peter Drucker recently called amputation without diagnosis.

The second implementation concern is the mark to market concept in FHA.

This is the idea of taking all these troubled multi-family projects which have inflated mortgages and inflated rents for which we are paying inflated Section 8 subsidies, and trying to solve that problem by marking the mortgages down to the market, the going rate, with the rents then coming down to a market rate.

Now, one problem with that concept is: it entails a huge hit, one would assume, on the FHA insurance funds. Perhaps more importantly, from the perspective of this committee and the OIG, we spent a lot of time last year with you, talking about these project-based Section 8 projects, and it became clear that HUD doesn't know what the condition of those projects is.

As a result of this subcommittee's work, HUD launched a series of SWAT teams to go out and try to figure out what were the most troubled projects and what to do about them. My question to you and the question you should be asking is, how do you do mark to market without knowing what your inventory is?

Another implementation concern about the Blueprint has to do with our troubled public housing. There is an assumption in the blueprint that HUD will be able to turn around and make these large, troubled public housing authorities competitive within the next 3 years.

I would hope you would ask questions about how HUD is going to be able to do that when it has, in fact, a pretty abysmal record of turning around these troubled public housing agencies.

I would further urge you to watch that, in the process of implementing the Reinvention Blueprint, that all of a sudden we don't start seeing a reemergence of set-asides which are the equivalent of programs, from HUD's perspective.

Finally—and this, I think, probably won't be popular with a lot of people—I would urge you to watch the Community Opportunity Fund, which is largely based on CDBG. Everyone likes CDBG. I think they like it because it gives them enormous flexibility.

While flexibility is good, the OIG believes that a relatively small portion of this program is being targeted to low and moderate income people, and that isn't right. HUD's business is not general economic development. HUD's business is taking care of the needy and that's where our assistance should be directed.

So the scope of the Blueprint, its policies, its implementation issues are just enormous, and I have no idea how the legislative process is going to work. It's very clear to me that HUD is still working on the specifications for this Blueprint and that the interest groups are just now coming forward with comments. I don't know what your legislative agenda is, but it seems to me that it's going to take some time.

In the meantime, there are a number of straightforward reform measures that could be taken, and should be taken, by the Congress. Many of these are reforms that we talked about last year with the subcommittee or that were included in the HUD Reauthorization Act of 1994 which was passed by the House but not by the Senate. Let me just run through these quickly with you.

First of all, it seems to me that, relatively easily, the Congress could do something about the excessive rents in project-based Section 8 projects. Let me just remind you that 75 percent of the rents in these projects are above fair market level. HUD is essentially precluded by statute now from reducing those rents to a reasonable level.

I think we have come to a consensus, which we did not have last year, that the one-for-one replacement rule in public housing simply needs to be done away with. We can't afford it. It's leading us to maintain vacant units that are causing all kinds of social dislocation, and it's a relatively simple thing, it seems to me, to just take it off the books.

We need legislative change in order to stop paying operating subsidies for vacant units in public housing. HUD needs more flexibility in disposing of properties, multi-family properties, without ex-

cessive subsidies attached to those projects. HUD is not a good project manager. We need to get rid of these projects as fast as we can.

I've talked to you before, Mr. Chairman, about the preservation program, and it seems to me that that's an excellent candidate for reform. You've heard me say before, this is a case where we could be spending as much as $37 billion over the next 10 years and I think we again have a consensus that it doesn't make a lot of sense.

Finally, I urge you to consider special purpose grants which are in the HUD budget, the 1995 budget, to the tune of $290 million, and I think you would have to question why.

In terms of management issues that do not require legislative action, I would urge you to focus on two things. Obviously, as I talk, and I'm sure as Judy will talk, there are two major areas in HUD that are really critical. One is multi-family housing and the other is public and Indian housing—the large, troubled public housing authorities.

The two management issues that HUD has to address—and I urge you to help them address—are, we need to know what our inventory of multi-family housing is. That needs to be a critical thing. We should not be sitting around waiting for the Reinvention Blueprint because, one way or another, we're going to have to know what that inventory is, to do anything. This should be a crisis. This should be a priority that HUD moves on apart from, in addition to, above anything else.

The second area is large, troubled public housing authorities. I guess Vince Lane will talk to you about this. But, you know, you can't let this go on. It goes on and on and on. There is not aggressive, bold action by HUD. Let me give you a little story. We are spending billions of dollars to keep people living in abysmal conditions.

In 1983, the Office of Inspector General did an audit of the Housing Authority of New Orleans and said: "This housing authority is troubled. It's going downhill. Something has to be done. It's not just that we're wasting money, but look what we're doing to people's lives." We went back last year and did another audit, and it is—it's Third World. Really, I think somebody should take a bus for the Congress, to New Orleans, and look at what we're doing to people.

When we issued our audit report, HUD entered into a partnership with the Housing Authority of New Orleans. The partnership now looks as though it's failing and so, now, there are other considerations about what we will do. Meanwhile, everything keeps going downhill.

It's very similar to DC. Remember, just a year ago in DC, HUD testified against the receivership because HUD said, "We can work this out with the District Government on a gentleman-like basis." And here we are a year later.

I urge you to become intolerant of these situations. HUD has the authority to declare a breach in the contracts with these kind of housing authorities; and I should tell you, there are only about 100 of them. But they are the housing authorities that give public housing the image that it has in this country, and what it's doing to people who live in these places is terrible.

The one last point about management at HUD—and I know this is boring and I keep saying it is boring, but HUD has no resource allocation system. It has no system of management controls and its data systems are woefully inadequate. In our last report to the Congress, we said HUD had devised a lot of plans for remedying those situations, but it wasn't making much real progress.

Recently, the Acting Deputy Secretary has started to try to organize this effort, and I am hopeful, but you will be getting another report from us in March, Mr. Chairman.

[The prepared statement of Ms. Gaffney follows:]

PREPARED STATEMENT OF SUSAN GAFFNEY, INSPECTOR GENERAL, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to share our views on "Opportunities for Cost Savings in the Department of Housing and Urban Development (HUD)." This Subcommittee was previously instrumental in bringing about needed reforms to address the "HUD Scandals" of the late 1980's, and has more recently focused attention on problems in HUD's Public Housing, Insured-Multifamily Housing, and Section 8 Project-Based Assistance Programs. As you continue your important oversight of needed reforms in these and other HUD programs, the HUD Office of Inspector General (OIG) stands ready to help in any way we can.

Last week, Secretary Cisneros appeared before you to discuss his plans and proposals for changes to preserve HUD's "vital mission." My testimony this morning provides you with the OIG's perspectives on those plans, as well as our input on interim improvement and savings opportunities which can be taken while planning of larger reforms continues.

OIG'S GENERAL PERSPECTIVES ON HUD'S REINVENTION BLUEPRINT

The OIG has been and will continue to be an active participant in the ongoing debate over the restructuring of the programs of HUD. The OIG's participation to date has included: (1) studying ways the Department could eliminate, consolidate and restructure 240 HUD program activities; (2) providing input to the Secretary's "Reinvention Blueprint" for a new HUD; (3) acting as an advisor to HUD task forces charged with developing legislative specifications for the new HUD; and (4) participating in Congressional Hearings on HUD's management and programmatic problems and needs.

In late September 1994, Secretary Cisneros asked the OIG to conduct an independent study of opportunities for eliminating or consolidating HUD programs. As part of our study, we identified and focused on 240 distinct HUD program activities. Our objective was to provide the Secretary with program elimination, consolidation and/or restructuring options that could improve HUD's pursuit of its core housing and community development mission, within existing or reduced administrative resource levels.

Our December 30, 1994 report on "Opportunities for Eliminating, Consolidating, and Restructuring HUD Programs" provided 34 major change options, the most drastic of which would reduce HUD to only six or seven major programs. A summary of change options and issues from our report is provided as Appendix I to this statement. The following postulates—rooted in our cumulative body of audit, investigative and program analysis work at HUD—served as the underlying bases for our 34 program elimination, consolidation and restructuring options:

- Budget and capacity limits require that HUD eliminate all but its core housing and community development programs;
- Program consolidations are needed to alleviate Administrative burdens on HUD and its program partners;
- Comprehensive market analysis and community planning are key to better allocating scarce resources to highest needs;
- Greater local program flexibility and decision making are needed to better address local program needs;
- Local performance incentives are needed to strengthen community commitment, accountability and results; and
- HUD's administrative and assistance resources need to be better targeted to improve problem program performers and program results.

Our examination of HUD's 240 program activities against these postulates led us to conclude that many HUD program activities warrant serious consideration of program elimination, consolidation or restructuring because they fall into one or more of the following categories:

- Small dollar, categorical grant programs, which have high administrative burdens, are poorly targeted to relative need, and reach only a small portion of the eligible universe of potential participants;
- Social service programs, which overlap with the core mission of other agencies and are generally beyond HUD's capacity to effectively administer;
- Heavily regulated programs, which are difficult to administer and lack flexibility to tailor local decisions on the best use of limited program resources in addressing local needs; and
- Multiple programs with similar objectives, which promote separate Federal and local bureaucracies and detract from overall program performance and results.

On November 22, 1994, we briefed the Secretary and his Principal Staff on the tentative conclusions of our study. That briefing served as the OIG's primary input to the formulation of HUD's subsequently announced "Reinvention Blueprint" of December 19, 1994. The ultimate program structure changes and goals of HUD's Reinvention Blueprint are similar to the most drastic of our suggested program change options.

By 1999, HUD's Reinvention Blueprint calls for:

(1) three flexible, performance-based funds (a Housing Certificates Fund for Families and Individuals; an Affordable Housing Fund; and a Community Opportunity Fund);

(2) the conversion of separate public housing agency funding to rental assistance for residents, who will be given the choice to stay where they are or move to apartments in the private rental market: and

(3) the transformation of FHA into a more business-like government-owned corporation, with a restructuring of its multifamily debt.

Transitional steps for getting to the new HUD program structure—which are outlined in the Blueprint for fiscal years 1996, 1997, and 1998—correspond to some of the other less drastic change options reported in our study.

In early January 1995, HUD established seven Reinvention Task Forces with the goal of developing specifications for HUD Reinvention legislation. The OIG is participating as an advisor to these efforts. The specifications are still under development.

On January 19th and 24th, 1995, we testified on HUD management and Reinvention issues before both the Senate and the House Appropriations Subcommittees on VA, HUD, and Independent Agencies. At those hearings, we expressed our opinion that HUD's Reinvention Blueprint was a bold step in the right direction. However, we cautioned the Congress on three major concerns. We repeat those cautions to you today, because we believe they are still very relevant:

- First, the Blueprint does not yet contain all the necessary details for a full evaluation.
- Second, HUD is a very complicated agency with a myriad of programs, constituencies and oftentimes competing priorities. It has enormous assets and liabilities, and touches the lives of millions of citizens. Some parts of the Blueprint are straightforward, relatively non-controversial, and relatively easy to accomplish. Other parts raise huge policy and financial issues, and they can be expected to be controversial, as well as difficult to plan and carry out.
- Third, HUD suffers from serious deficiencies in its administrative resources and management systems, as well as a lack of strong and disciplined management leadership. These problems can hinder HUD's ability to properly design and carry out the Reinvention effort it has proposed.

SPECIFIC CONCERNS ON RESTRUCTURING HUD

In the context of the general concerns I have just raised, I'd like to identify some specific issues that need to be addressed in any major programmatic restructuring at HUD.

First, there needs to be a clear relationship between program restructuring plans and proposed cuts in staffing and other resources for effective program administration. HUD's Reinvention Blueprint was announced simultaneously with a proposed reduction of 4,000 staff, yet there has been little to no analysis to support and correlate these two monumental proposals. While reduced Federal staffing is a goal of this Administration and the Congress, arbitrary cuts in salaries and expenses are usually "penny-wise and pound-foolish" when related to the impact on the significant financial programs and commitments of HUD. The combination of arbitrary

staff cuts and increased program activities and changes have been a major contributing factor to the fraud, waste, abuse and losses experienced at HUD over the past decade.

Second, HUD needs clear mission objectives and operating strategies for all major components of its Reinvention Blueprint. For example, HUD has proposed spinning off FHA as a separate Government-Owned Corporation (GOC). Before acting on such a proposal, Congress should be provided a full explanation of (1) FHA's intended role or "niche" in the housing market place; (2) the types of administrative authorities (personnel, procurement, etc.) that FHA believes it needs in lieu of existing Federal requirements; and (3) FHA's proposals for establishing systems of internal control in the absence of these Federal requirements.

We generally support the need for FHA's "business operations" to be separated from the annual Federal budgetary decision processes that are applied to discretionary programs and salaries and expense activities. A business operation cannot operate effectively when it is subjected to arbitrary across-the-board cuts to or freezes on its salaries and expense activities. FHA needs greater control over its staffing and resource levels, to improve its ability to react to market fluctuations and business needs. However, FHA's current operations are intricately tied to the management systems of the Department as a whole. A poorly planned move to GOC status could compound FHA as well as other HUD problems.

Another major issue in the Reinvention Blueprint plans for FHA is the restructuring of the insured-multifamily housing portfolio. This significant high risk portfolio has about $36 billion of insurance-in-force on over 14,000 projects (excluding hospitals and nursing homes), and another $7.8 billion in HUD-held notes on about 2,400 projects. About two-thirds of the insured projects receive billions of dollars of HUD Section 8 subsidies to sustain project operations, including debt service costs that are not representative of the projects' current market value. HUD proposes to mark down those project mortgages to market value, to eliminate or reduce its project-based subsidies.

While we generally agree on the significant long term cost benefits of restructuring HUD's insured-multifamily and project based assistance programs, Congress must be provided with details on how that restructuring will be carried out, and estimates of the significant increases in the short-term costs of these program efforts. Given the inadequacies of HUD's multifamily housing program systems, compiling this information will be a resource intensive effort.

Another major concern with HUD's Reinvention Blueprint pertains to the plans for transforming public housing by putting public housing in a more competitive condition, and then converting project based public housing operating funding to rental assistance for tenants. HUD's $90 billion investment in public housing impacts about 1.4 million low-income households. There are a myriad of Federal, State and local legal, operational and budget issues that must be identified and addressed to successfully pursue this option.

We are particularly concerned as to how the public housing transition scenario will play out in the large troubled urban public housing authorities. HUD's track record in working with localities to improve these public housing authorities has not been effective, as evidenced by unresolved OIG audits of the Housing Authority of New Orleans (HAND) and the District of Columbia's Department of Public and Assisted Housing (DPAH).

There are also major Federal policy issues that should be addressed in conjunction with HUD's Reinvention Blueprint. HUD's public and assisted housing programs serve only about one third of the persons eligible for the benefits. While HUD's housing assistance has not been part of the welfare reform debate, it clearly should be, particularly in light of the proposed transition from project-based to tenant-based assistance. The Federal Government needs to rationalize the relationship between HUD's rental housing assistance and welfare, including welfare shelter assistance.

HUD's housing quality standards (HQS) are a related policy issue. Compliance with HQS has been a mainstay of the justification for and requirements of many HUD programs. Local housing codes do not exist in many areas; and, where they do exist, they often apply only to new construction or remodeling projects on a permit basis, rather than to occupancy on a periodic inspection basis. HUD's national HQS policy role, and the role and cost of HQS in HUD funded programs need to be explicitly decided.

Finally, the structure of HUD's proposed performance-based block grants needs clear definition, to assure that the block grants will actually provide local control and accountability, and not simply a consolidation and continuation of the myriad of national Federal requirements and administrative burdens that generally detract from meeting local needs. We believe that reinvention should curtail HUD's program

proliferation by eliminating Federal discretion to create national funding set-asides for designated sub-program participants and activities. Also essential to the design of these new funds, are adequate performance measures and systems for assuring that activities are targeted for the benefit of intended low- and moderate-income persons.

It is essential that these types of issues be clarified before the Congress acts on HUD's Reinvention proposals, or proposals of its own. Failure to do so can have dire consequences for the efficiency of HUD's program delivery and its impact on billions of dollars of financial commitments and millions of American families and other dependent beneficiaries.

ADDITIONAL REINVENTION BLUEPRINT SUGGESTIONS

Although HUD's Reinvention Blueprint incorporated many of the OIG's suggested change options, we believe the following proposals warrant further consideration:

• Combining all of HUD's block grant funding for "housing" activities into one program fund rather than two. HUD's Blueprint provides for housing activities under both the Affordable Housing Fund and the Community Opportunities Fund. One program funding source would simplify administration for HUD and States and localities.

• Combining all HUD funding for the housing and community development needs of Indians into a single program source. HUD's Blueprint provides for a continuation of set-asides for Indians in each of HUD's separate reinvented programs. One program would simplify and facilitate improved program administration to better meet the unique needs of Indians.

Eliminating the redundancy of a separate HUD Office of Fair Housing and Equal Opportunity (FHEO) and providing a clearer focus on (1) fair housing policy through FHA, (2) lender monitoring through existing Federal financial institutions oversight organizations, (3) program support and oversight through HUD's community block grant activities, and (4) enforcement through the Department of Justice Civil Rights Division.

A subject not covered in our report or the HUD Blueprint is the need to stop any HUD program proliferation while the debate on HUD's reinvention proceeds. Under the 1994 Crime Bill, HUD is designated as the administrative agency for several billion dollars of Local Partnership Act grants. When the Crime Bill was being considered, we expressed our concerns to Secretary Cisneros that "HUD has neither the resources, the expertise nor the mission mandate to effectively administer such a major program for crime prevention." That situation has not changed, and will be exacerbated by announced HUD staff reductions. This situation should be considered as part of the current debate over changes to the Crime Bill.

INTERIM LEGISLATIVE IMPROVEMENT OPPORTUNITIES

Most of our 34 reported change options, and HUD's Reinvention Blueprint, would require substantive changes to HUD's statutory program authority. Given the magnitude and complexity of the proposals to reinvent HUD, it is possible that major reform legislation will not be passed in conjunction with HUD's fiscal year 1996 appropriations. Since HUD's fiscal year 1996 budget submission was made in line with its Reinvention Blueprint, Congress would likely have to revert back to HUD's fiscal year 1995 appropriations as a base for funding existing authorized program activities in fiscal year 1996.

A central theme of our report—the need to improve HUD's core program delivery—can be used to begin the restructuring of HUD through the appropriations process, until HUD's authorizers can forge a more comprehensive program restructuring. If the above budget scenario plays out, we believe there are opportunities for savings through funding only HUD's core housing and community development program activities in fiscal year 1996. HUD's administrative burdens will be alleviated by not funding another round of HUD's other smaller programs in fiscal year 1996. This will better enable HUD to pursue its reinvention proposals, which we view as staff intensive during the important transition period.

Appendix 2 identifies those programs which we consider to be HUD's existing "core" or major programs. We believe funding of most of HUD's "core programs" should be continued in fiscal year 1996, until more comprehensive program restructuring plans can be formulated and authorized. While some of HUD's core programs have significant design flaws that drive up program costs and/or detract from program effectiveness—such as the Prepayment/Preservation and Section 8 Project-Based Assistance Programs—termination of funding without a viable alternative program strategy could have dire consequences for HUD and local financial commitments, as well as millions of currently assisted tenants and their communities.

However, within these core programs, some interim steps are suggested below, and in Appendix 2, to improve the efficiency and effectiveness of HUD's programs now.

Program improvements and savings are possible through a variety of interim statutory, regulatory and/or administrative changes to HUD's existing programs. Interim statutory changes should be considered in the following areas:

Multifamily Housing Programs: Project Based Assistance

The HUD multifamily project based assistance projects are in a state of crisis. For a variety of reasons—including poor underwriting, inadequate servicing, excessive rental rates, and owner abuse—HUD's portfolio of multifamily projects has deteriorated dramatically both financially and physically over the past decade. Recognition of the crisis has been slow in coming, but we believe that there is now consensus that something drastic has to be done. Our suggestions along these lines are:

HUD should discontinue propping up distressed projects, as has been the practice in the past. In this regard the Loan Management Set Aside and Flexible Subsidy programs should be eliminated. (1995 appropriations were over $200 million.)

HUD should discontinue subsidizing rents far in excess of the rents for comparable unassisted units in the same locality. This can be accomplished as contracts with owners come due over the next several years. (It is estimated that over 600,000 Section 8 units are involved.) A recent study estimated that 75% of HUD-insured Section 8 multifamily housing properties have assisted rents which exceed market rents. Of these, 42% are at or in excess of 140% of market rents. Reducing these rents just to the level of the Fair Market Rents could serve as a catalyst for owners to refinance or take other cost saving measures. The subsidy savings would be offset somewhat by FHA insurance fund losses for projects that default/foreclose because of the reduced rents. Nonetheless, the long term savings would be enormous.

• HUD should discontinue paying owners windfall profits for projects that threaten to prepay their mortgages and remove the low income character of the units. The current Preservation programs (Title 2 and Title 6 which potentially involve about 400,000 Section 8 units) have been characterized by our office as "scandals" and "taxpayer rip offs." They should be repealed and replaced with a more reasoned and balanced approach for preserving the units. Our April 1994 audit of the Title 6 Program estimated that a more flexible approach to preserving units could save tens of billions of dollars.

• HUD should be relieved from the need to over subsidize projects sold through HUD property disposition programs. Well intentioned but ill-advised laws prevent FHA from operating in a business-like fashion. Last year, the Congress and HUD took some steps to improve this situation, but more needs to be done to assure that HUD staff have maximum flexibility in attempting to dispose of properties in a cost effective and timely manner

At the close of fiscal year 1993, HUD owned 178 projects and held the mortgages on about 2,400 other projects ($7.8 billion mortgage balances, of which about $6 billion were non performing) that probably would be foreclosed if more flexibility were allowed. HUD's fiscal year 1995 appropriation set aside $555 million of Section 8 assistance for multifamily property disposition activity. Again, the long term savings could be extremely large if HUD could stop tying assistance to project units.

• Congress should change existing program enforcement and bankruptcy laws which serve to protect bad project owners over HUD program interests.

Public and Indian Housing Programs

Many large troubled public housing agencies (PHAs) are also in a state of crisis. Over the past years, OIG audit work has served as the basis for numerous Congressional hearings focusing on the problems that plague these agencies. Although proposals were made, improved legislation or administrative practices have not materialized. The following matters are worthy of your consideration.

• HUD should discontinue paying operating subsidies on long term vacant units. Approximately 112,000 units nationwide are vacant and many are boarded up with little hope of getting on line in the near future.

Yet, HUD continues to pay an estimated $235 million a year in operating subsidies on these vacant units.

• The Congress and HUD should not insist that every single unit of public housing removed from the stock needs to be replaced on a one for one basis. This current restriction creates numerous situations where otherwise more cost effective measures, such as demolishing badly deteriorated units, are deferred because replacement units are not immediately available. Flexibility needs to be given to the PHAs in such situations.

• HUD should relieve PHAs of strict rent setting patterns, preference rules and admission policies as a means to increase both the rental income stream and the

resident income mix at projects. Operating subsidies could be reduced substantially if the tenant portion of rent payments were increased through these measures.

• HUD should discontinue attempting to regulate and fund the testing and abatement of lead based paint. HUD has demonstrated neither the capacity nor the administrative capability to perform these functions. The EPA should be designated as the sole Federal agency for reducing the hazards associated with lead paint as well as other lead contaminated products.

Other Program and Budget Savings Opportunities

Other significant HUD program improvement and budgetary savings suggestions include the following:

• The Administration and the Congress need to develop a strategy for dealing with the large sums of unobligated and unused HUD program funding. Such a strategy would include a possible rescission of funds. HUD's own analysis identified $4 billion of budget authority carryover, in more than 50 discretionary programs, as of September 30, 1994. Much of this funding pertained to programs which would be eliminated under HUD's Reinvention Blueprint. While HUD has been pushing to get those funds out the door, there are still significant amounts available if quick Congressional action is taken. There are billions more of "pipelined" HUD funds with public housing agencies and communities. HUD has been lax to enforce requirements for the timely use of those funds. Fiscal year 1996 funding could be limited to those eligible entities which have met requirements for the timely use of prior program funds.

• Congress is strongly encouraged to take the lead and set the proper tone in "biting the bullet" on HUD reforms by eliminating the hundreds of millions of dollars of "Special Purpose Grants" that are put upon HUD each year. These Congressionally mandated individual grant awards are placed in HUD's appropriations without the benefit of specific program authorization or administrative resources. Since 1991, Congress has appropriated over $750 million in Special Purpose Grants, including $290 million in HUD's 1995 appropriations. There is currently an estimated $337 million of Special Purpose grant funding available for recision. To the extent these projects are a local priority, HUD's Community Development Block Grant or other available Federal funding sources can be used to fund them.

INTERIM IMPROVEMENT OPPORTUNITIES THROUGH HUD REGULATORY, MANAGEMENT OR ADMINISTRATIVE ACTION

There are a number of specific program improvements and savings that could be achieved through HUD regulatory, management or administrative action.

HUD Management and Administration

OIG has long contended that systemic weaknesses in HUD's management environment, resource management and data systems adversely impact the efficiency and effectiveness of HUD's overall program delivery.

As a matter of priority, the HUD OIG has been closely monitoring and reporting to the Congress on HUD's plans for and progress in correcting its systemic management weaknesses. In our report to the Congress as of March 31, 1994, we commended Secretary Cisneros and his principal staff for their understanding of the issues, approach to problem solving, and willingness to take on the tough root causes of the problems. While HUD had made considerable progress in planning for needed management improvements, we cautioned that "It is critically important for HUD leadership to stay the course and to devote increasing attention to melding the individual management improvement efforts into a coherent, institutionalized framework."

The OIG's latest report to the Congress (as of September 30, 1994) is less positive. We found that, although HUD planning efforts had laid the proper groundwork, little had been accomplished in terms of actually correcting the problems. Specifically:

• With respect to HUD's management control environment, we found that the Secretary's Performance Report—designed as the Department's principal vehicle for setting overall priorities, establishing milestones, and tracking progress—had not been updated since it was first compiled in June 1994. Further, HUD's Management Committee—commissioned to correct HUD's systemic management weaknesses—was fragmented, largely process oriented, and generally reactive in nature; and proposals had been developed for a dozen new HUD programs with little regard for the impact on HUD's capacity to improve its core program delivery.

• With respect to HUD's resource management, we reported that HUD's field reorganization had not been completed by the target date of September 30, 1994. More importantly, this reorganization—appropriately designed, in the OIG's view, to improve program delivery by giving Assistant Secretaries direct control over field re-

sources, eliminating unproductive layers of oversight and support functions, and empowering staff to directly improve customer service and program performance—seemed to have resulted instead in confusion, skepticism, and distrust among field personnel. In addition, despite efforts to develop resource allocation tools, HUD's department wide staffing allocations continued to be made without the benefit of basic data or a systematic methodology; and critical agency functions—such as servicing of FHA's insured multifamily loans—continued to be grossly understaffed

• With respect to HUD's data systems, we reported that some progress had been made but HUD's major business areas still lacked adequate data systems support. We noted that HUD's capabilities for budgeting, planning, and monitoring systems development efforts had been significant strengthened; and that certain systems development projects—notably HUD's administrative accounting system and PIH's Section 8 systems projects—were proceeding on schedule. However, other systems efforts that have major programmatic implications—such as the FHA Management Information System and Housing's Multifamily Housing Program System—were proceeding slowly. We also noted that HUD continues to face funding shortfalls for data systems infrastructure.

Our report to the Congress said that some of these delays in correcting HUD management problems "may reasonably be attributed to the magnitude and complexity of the problems. However, the absence of strong leadership and consistent follow-through has also been a factor." A continued focus on these systemic management problems is needed, along with the following suggested changes that are within HUD's purview to carry out.

Troubled Multifamily Housing Projects

• HUD should complete its efforts to identify the universe of troubled properties and develop profiles showing the financial and operating status of each troubled property. Compilation of this information will enable HUD to make more informed and timely decisions on its portfolio of troubled Properties and will facilitate HUD's program enforcement.

• HUD should begin immediately to assess the costs and benefits of its programs for assisting troubled properties so it can make informed decisions on the kinds of assistance that should be used and when such assistance should be triggered.

Multifamily Property Preservation and Section 8 Contract Renewals

• HUD should base all its decisions on continuing assistance to multifamily properties, whether such assistance is in the nature of preservation or renewal of Section 8, on comprehensive physical, financial, and economic analyses of properties.

• HUD should renew all new Section 8 project-based contracts only on the basis of comprehensive analyses of the underlying properties and only under terms which give the Department flexibility to adjust rents to comparable market rents.

Multifamily Prevention Measures

• HUD needs to immediately refine its system for analyzing properties to detect early warning signs of projects becoming troubled. HUD needs to place greater emphasis on preventative measures to deter defaults and prevent properties from becoming troubled.

• HUD needs to take action to stop the unwarranted escalation in Section 8 contract rent increases, through either rent comparability reviews or other means, such as a cost-based measure being developed by HUD.

• HUD should begin immediately to apply project reserve funds, when feasible, to meet increased owners' costs, rather than automatically granting contract rent increases to such owners.

• HUD should evaluate and modify its systems for compensating property owners and their management agents to provide incentives for improving the efficiency of property management. HUD should also accelerate transfers of ownership and encourage the use of nonprofit organizations where appropriate.

• HUD needs to get tough and more aggressively use its existing enforcement tools more extensively and effectively to deter and sanction the gross mismanagement of insured/assisted properties. This will require overcoming HUD's past culture which had a wholesale disregard for available enforcement tools. The key to such a culture change is the need to make the sanctions impact the owners and agents, not the tenants or the Department. Equity skimming by owners and agents rob the tenants of quality housing and contribute to HUD losses through default and foreclosure. A sound enforcement program could save HUD millions of dollars.

Public Housing and Section 8 Tenant-Based Assistance

• HUD should act aggressively and decisively in dealing with large troubled public housing agencies (PHAs). HUD should assess the current status of large troubled

PHAs as well as their past history. Sanctions should be taken immediately, including HUD-initiated receivership and the use of private management companies, where warranted. Unobligated funding should be recaptured when HUD has good cause to believe that the funds will be misspent or will not directly benefit the PHA's residents. If feasible, HUD should discontinue its project-based assistance to certain troubled developments, and instead, residents should be given portable certificates or vouchers.

• HUD should begin immediately to assess the public housing stock, both physically and operationally, as a basis for determining the most cost effective and beneficial way of assisting developments now and in the future. On the basis of these assessments, HUD should determine if certain developments should be retained or deprogrammed (through demolition or disposition). If retained, HUD should identify other less costly and potentially more effective funding alternatives.

• HUD should act aggressively to deregulate and decontrol non-troubled public housing. Major deregulation efforts should occur with respect to tenant eligibility, applicant screening, admissions, resident mix, household-income determinations, lease/grievance procedures, property standards, project development, and utility allowances.

• HUD, HHS, PHAs, localities, and local providers should work closely to strengthen and improve welfare-to-work efforts in public housing. HUD should begin immediately to facilitate the conversion of public housing to transitional housing.

• HUD should lower maximum Section 8 Fair Market rents (FMRs) from the 45th percentile of all rental housing in the locality to the 40th percentile. This would save about $300 million.

• HUD should end PHAs' monopoly on the administration of Section 8 vouchers and certificates and open these programs to competition. This could reduce the costs of administering these programs and perhaps even result in improving program administration.

Mr. Chairman, in closing I want you to know that the OIG will continue to assist HUD and Congressional efforts to improve the delivery of HUD's housing and community development programs. I thank you for the opportunity to share our views, and welcome your questions at this or any time.

APPENDIX —HUD/DIG STUDY OF "OPPORTUNITIES FOR TERMINATING, CONSOLIDATING AND RESTRUCTURING HUD PROGRAMS"

SUMMARY OF OPTIONS AND ISSUES

COMPREHENSIVE MARKET ANALYSIS AND COMMUNITY PLANNING

CPD

Option 1: Four Block Grants

1. Community Development Grants
2. Affordable Housing Grants
3. Homeless Grants
4. Indian Grants

Option 2: Three Block Grants

1. Community Development Grants
2. Affordable Housing Grants
3. Indian Grants

Option 3: Two Block Grants

1. Community Development Grants
2. Indian Grants

Option 4:

Targeted Revenue Sharing

Issues:

- National Objectives
- Funding Levels
- Needs-Based Formula Allocations
- Set-Asides
- Performance Measures
- Performance Data Collection

- Performance Incentive Funding
- Targeted Technical Assistance
- Authority to Condition Grants

HOUSING/FHA

3 Programs

1. Single Family Insurance Program
2. Multifamily Insurance Program
3. Flexible Multifamily Preservation Program

Program Authorities:

One general program authority for each of the FHA SF and MF programs, with flexibility to develop needed sub-programs and instruments to serve underserved housing markets and the needs of lower income and first time home buyers.

A Flexible MF Preservation Funding Program to replace existing Flexible Subsidy, Section a LMSA and Project-Based Contract Renewals, as well as the Prepayment/Preservation Programs, to provide a single flexible funding source to enable HUD to perform project by project analyses and tailored decisions on the most cost effective way to house existing residents and preserve existing stock.

Issues:

- Clear Mission/Objectives
- Housing Policy/Standards
- Market Needs/Share
- Current Organization vs GOE Status
- Business-like Flexibility in Program
- Structure, Budgeting, and Staffing
- Leadership Stability
- Strong Information Systems
- Program Cost/Benefit Analyses
- Performance Measures
- Capacity/Custodial Effort Needs

PIH

PH options:

1. Phase-out PH Programs in Favor of Housing Block Grants to Communities
2. Single PHA Funding System
3. Single PHA Funding System Plus Capital Improvement "Backlog" Funding System
4. Single Capital Improvement/Development Funding System Plus Revised Operating Cost Funding System
5. Option 4 Plus a Capital Improvement "Backlog" Funding System
6. Single PH Funding System Plus a Single Special Needs/Services Funding Program
7. Option 6 Plus a Capital Improvement "Backlog" Funding System
8. Option 4 Plus a Single Special Needs/ Services Funding Program
9. Option S Plus a Single Special Needs/ Services Funding Program

Indian Programs Options:

1. Transfer All Indian Programs to Interior
2. Single Block Grant (same as CPD option)

Section 8 Tenant-Based Assistance

1. Shelter Cash Subsidy Program (Reconciled with Welfare Shelter Allowances)
2. Expanded Section 8 Voucher Program
3. Restructure Section 8 as a Rental or Homeownership Program

Issues:

- Stock Transition Concerns
- Decontrol and Deregulation
  - Good and Small PHAs
  - Flexible Stock Management
- Transitional Housing Role for PH

Terminated Program Custodial Effort

OTHER

FHEO Options:

1. Retain FHEO enforcement, fund special efforts thru CPD block grants.
2. Transfer enforcement to FHA/ Housing, local efforts eligible under CPD block grants.
3. Transfer enforcement to DOJ, with local efforts eligible under CPD block grants.

Lead-Based Paint:

1. Transfer issue to EPA/HHS, limit HUD role to problems in its own stock.
2. Refocus HUD efforts on known problems and improved testing and abatement techniques

GNMA Options:

1. Eliminate GNMA in favor of GSE players
2. Make GNMA part of a new FHA GOE

APPENDIX 2—HUD'S MAJOR OR CORE PROGRAMS FOR FY 1996 BUDGET CONSIDERATION

This list represents OIG's identification of major or "core" HUD programs which should be considered for continued funding in fiscal year 1996, until broader HUD program reform legislation can be developed and acted upon. For more detail on HUD's total existing program activities, please see OIG's report on "Opportunities for Terminating, Consolidating and Restructuring HUD Programs."

Community Planning and Development

- Community Development Block Grants
- Section 108 Loan Guarantees
- HOME Investment Partnerships
- McKinney Act Homeless Programs
- CPD Integrated Database and Mapping Project (This is an important effort but there is a need for a better understanding of where the project is going, what it will cost, and when it will be finished)

FHA / Housing

- FHA Insurance Authorities for Single Family Housing, Multifamily Housing and Title I Manufactured Housing and Home Improvements
- Regulatory Functions for Manufactured Home Inspection, Interstate Land Sales, and Real Estate Settlement Procedures Act Enforcement
- Custodial Requirements on Prior Program Commitments such as the Section 235 and 236 Programs, and Section 202 Direct Loans
- Section 202 Supportive Housing for the Elderly/Handicapped (Funding could be eliminated or transferred to the HOME Program to allow local fulfillment of this housing need)
- Section 811 Supportive Housing for Persons with Disabilities (Funding could be eliminated or transferred to the HOME Program to allow local fulfillment of this housing need)
- Prepayment Preservation Program—Title II and VI (Funding for this flawed program should be eliminated providing there is tenant-based assistance available for any displaced tenants)
- Section 8 Loan Management Set-Aside Program (Eliminate funding to discontinue propping-up troubled projects and to move away from further inefficient project-based housing assistance to other strategies HUD is developing)
- Section 8 Property Disposition Program (Consider funding for capital improvement grants in lieu of funding for 15 year Section 8 subsidy contracts on property sales)
- Section 8 Project-Based Contract Renewal Program (Renewal terms could be limited to 1 to 2 years to limit commitments until further program restructuring can be planned)
- Flexible Subsidy Program

Public and Indian Housing

- Performance Funding System Operating Subsidies
- Public Housing Development (Funding could be eliminated or curtailed in line with plans to transition away from public housing developments as a segregated source of housing for low income people)

• Public Housing Modernization (Consider interim statutory changes to allow greater flexibility in existing program requirements—such as elimination of the 1-for-1 replacement requirement)
• Section 8 Housing Vouchers and Certificates (Incremental vouchers and certificates could be limited until HUD's program restructuring and reconciliation with the welfare reform issue can be better focused—many set-asides could also be eliminated)
• Renewal of Expiring Section 8 Contracts
• Indian Housing Development (Fair Share)
• Indian Housing Modernization

Other HUD Programs

• GNMA Mortgage Backed Securities Program

(Fiscal year 1996 funding for all other miscellaneous grant programs of the Offices of Fair Housing and Equal Opportunity, Lead-Based Paint Abatement, and Policy Development and Research could be eliminated in light of the goals of HUD's "Reinvention Blueprint" or OIG's report on "Opportunities for Terminating, Consolidating and Restructuring HUD Programs")

Mr. SHAYS. Before asking you to speak, Ms. England-Joseph, I would just want to make sure for the record that we have Chris Greer accompanying you.

Ms. GAFFNEY. Oh, I'm very sorry. Yes.

Mr. SHAYS. That's all right. I should have really done that. And we have Dennis Fricke. I'm just going to raise a question now I'd like you to think about when Judy England-Joseph is speaking.

I'd like you to tell me some of the things that HUD does really well, because when I read your entire statement last night, it strikes me that things were terrible and getting worse. That's not an indictment of the present administration. I think HUD has been a very troubled agency.

Another bottom line question I'm going to ask you to think about is, is HUD capable of being reformed or is it so bad that we just need to start fresh?

Ms. England-Joseph.

Ms. ENGLAND-JOSEPH. Thank you, sir. I appreciate being asked to testify before you and the members of the subcommittee.

We are as concerned as you are regarding HUD's capacity to effectively manage its programs. HUD drives huge loan commitments and discretionary spending. In addition, HUD has management problems that have been longstanding.

All this together indicates that it's the appropriate moment for a full examination of HUD's mission. I think in order to do that well, policymakers must address the question of what is the Federal role in housing. So I will continue during my statement and perhaps during questions to bring us back to what is the Federal role, in terms of Federal housing policy.

I'd like to give you an overview of what we see to be the management problems at HUD and then to spend some time talking about the implications of the recently announced Blueprint.

HUD has four longstanding problems: weak internal controls; an ineffective organizational structure; an insufficient mix of staff with the proper skills; and inadequate information and financial management systems. Those longstanding problems have resulted in GAO identifying HUD in January 1994 as a high risk area. Today we are issuing our first assessment of progress on those high risk problems at HUD.

HUD has made very slow progress in actually addressing those problems. That was the reason we named it as high risk area recently, even though those problems have been around for at least 10 years. HUD's problems create a particularly vexing problem for Congress and for HUD.

First, HUD expects to lose $10 billion as a result of defaults on its multi-family loans over the next 6 years. Also, multi-billion dollar costs of continuing existing rental housing subsidies for millions of low-income families creates a tremendous strain on the congressional budgeting process. Finally, to maintain public housing in its current form, we're faced with billions of dollars in backlogged housing rehabilitation needs, increased vacancy levels, and declining tenant incomes.

HUD has taken steps to begin addressing some of these problems, but it's in the very early stages of addressing those problems and there's a long way to go.

Now, let me talk a little bit about what I see to be the implications of restructuring HUD. I think it's really important to note that HUD currently serves millions of Americans, not just the very poor. Although HUD does serve the very low-income household through rental subsidies, it also makes home ownership more feasible for others, it addresses housing discrimination, and helps to revitalize communities.

But, given management and budgetary problems, it is clear that serving these same customers with existing delivery systems doesn't work very well and, in fact, major reform is needed. No matter how mild or drastic the reforms are, however, there are very serious budget and social implications.

A couple of weeks ago the Secretary described to you his Reinvention Blueprint. I do want to make two points about that Blueprint.

First, I think it is terrific that you have something on the table to sink your teeth into and to discuss. However, it assumes that HUD's mission does not change. It only assumes different delivery systems. It is not a new mission for HUD.

Second, the Blueprint lacks details. There are several questions that we have as we look at that Blueprint. Again, I go back to the question of what should be the Federal role in housing. What is the Federal role in designing and administering housing policies in programs? The Blueprint calls for devolving more responsibility and authority to State and local governments, but HUD appears to play a continuing role of review, approval, and oversight. That's where there have been big problems in the past, so I have a real question as to how HUD's role will actually change, even under this new reinvention design.

If we were to further devolve more responsibility to State and local governments, what Federal oversight role will you want to have to assure yourselves that Federal funds are being spent as intended?

Another overarching question is, do we need HUD? If not, should other Federal agencies take on housing responsibilities? If so, which ones and which responsibilities? If no Federal entity takes over HUD's role, then, again, the question of oversight of Federal

funds, Federal expenditures, is one that would need to be answered.

I'd like to carry these questions a little bit further, to the public and assisted housing area, where three fourths of HUD's budget actually is spent. Can significant savings be achieved through this Reinvention Blueprint? Can significant savings be achieved through reorganization? Recognize that reorganization can save some dollars through administrative savings but it does not truly affect the bottom line appropriation.

To really realize significant budget savings, we're going to need to change the type of subsidies, the amount of subsidies that we provide, and the numbers of people we serve.

I think the questions that face the Congress are, how many people do you want to serve? How much assistance should poor people receive and for how long? Now, that's a very difficult set of questions, given the fact that, today, many of those who receive assistance from HUD are the elderly, persons with disabilities, and families with children.

Actually, about 40 percent of those assisted through public housing alone are the elderly and persons with disabilities—persons, by the way, that would not, under any scheme, be expected to achieve some long-term self-sufficiency.

Which of these questions would you want to answer at the Federal level and which of these questions would you want to have answered at the State and local levels? How quickly can HUD be expected to transition to and be ready to fully implement any new housing assistance approaches?

As I mentioned earlier, HUD has begun to address many of these longstanding management deficiencies, such as internal controls and the information and financial management systems. Over the last 2 years, they've made considerable efforts, but HUD still has a long way to go.

The ability to act quickly is something that I have some concern about. The plan implies, at least at this point, that we're talking about a 3- to 4-year period, although recent discussions in the public housing area indicate that HUD now recognizes it may take 6 to 8 years, I wouldn't be surprised, as we further discuss that Reinvention Blueprint, that we're talking well beyond that time frame.

Can HUD truly act quickly and can we as a Government really act quickly as it relates to program design? Let me just focus on two areas that I think make it very difficult to act quickly.

One is on restructuring the multi-family loan portfolio. As Susan mentioned earlier, we need to actually analyze as a Government every single property that's in the portfolio. Currently, HUD is in a process—and they've only just begun—of taking a look at their new construction and substantial rehabilitation properties. At the pace that they're going now, we're probably talking many, many years—well over 10 years—in order to get an understanding of those properties.

At the pace that HUD shows in its budget, which includes an increase in both contracting dollars and salaries and expenses, HUD is estimating that it will take them beyond the year 2003 to have a good financial and physical assessment of these properties.

Let's just look at the Section 8 new construction and substantial rehabilitation programs a little bit further. Those are the properties on which we testified before you last year, because of the the deplorable conditions that we found.

HUD has contractual obligations to provide subsidies to tens of thousands of these units. By 1999, only 14 percent of those units will have contracts that expire. That takes us clearly into the next century before you can affect those subsidies. Those are contractual obligations that, from the way it appears today, would be very difficult for the Federal Government to get out of easily and at low cost.

The bottom line is that, even if we were to abolish HUD today, hundreds of billions of dollars in commitments, just in the Section 8 subsidies area alone—and not including all the FHA single-family, multi-family insurance issues—we're really talking about not being able to act as quickly as we think. Even if we were to eliminate the physical form of HUD, we still will have a Federal responsibility that probably will not disappear well beyond 2005 and it will take a great deal of money to support that Federal responsibility for many years.

In summary, I think that HUD has a formidable task before it. I think the Congress has a formidable task before it, of trying to balance business decisions with budget and social decisions. One of the places we end up, in my statement, is the first question that I posed: we've got to get agreement on what is HUD's mission. Who do we want to serve and in what way?

Then I would emphasize the need for clear performance expectations and very clear agreed-upon milestones. These are issues that are of real concern to us. Without having expectations and clear milestones, it's awfully difficult to be able to measure progress and, from an oversight perspective, it makes it very difficult to have any sense as to whether success is being achieved.

The difficulty is that the longstanding problems regarding HUD's lack of internal controls and the lack of good information systems limits the ability to have good data on which to build either a baseline and to be able to measure performance based on that baseline. So one of the areas that we continue to want to put a great deal of emphasis and priority is in HUD's ability to begin to build better information systems that would allow the kind of decisions that I think you're going to need to make in the future.

I welcome any questions that you might have, you and the subcommittee.

[The prepared statement of Ms. England-Joseph follows:]

PREPARED STATEMENT OF JUDY A. ENGLAND-JOSEPH, DIRECTOR, HOUSING AND URBAN DEVELOPMENT ISSUES, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommittee:

We are pleased to discuss the budget and management problems facing the Department of Housing and Urban Development (HUD) and to help set the stage for addressing those problems. HUD has severe organizational and management problems that it is still in the early stages of addressing. In addition, HUD's programs consist of large federal loan commitments and discretionary spending. Therefore, controlling HUD's spending will require a reexamination of federal housing policies and HUD's mission to carry out those policies. Questions that must be addressed include (1) does HUD have the ability and the resources to effectively carry out its

current or future responsibilities and (2) to what extent is the federal government able to support these efforts?

Our statement today is based on several reports that we have issued and testimony that we have given over the past 3 years as well as our ongoing work (see appendix). It will focus on (1) long-standing management deficiencies at HUD that hamper its effectiveness, (2) problems that HUD and the Congress face in public and assisted housing programs—which account for the bulk of HUD's outlays, (3) the progress HUD is making in addressing the problems it faces, (4) the challenges that HUD faces in restructuring its programs and mechanisms for delivering programs, and (5) fundamental questions that should be addressed in considering future housing and community development policy.

In summary, we have found the following:

• Four long-standing department wide deficiencies hamper HUD's ability to effectively carry out its mission. These deficiencies are weak internal controls, an ineffective organizational structure, an insufficient mix of staff with the proper skills, and inadequate information and financial management systems. Because of HUD's slow progress in correcting these management weaknesses, in January 1994 we determined that the Department warranted the focused attention that comes with being designated by GAO as a "high-risk area ".[1]

• The four department wide management deficiencies, along with a variety of other problems, have created particularly vexing problems for both HUD and the Congress in the area of public and assisted housing. These problems include how to (1) minimize mortgage loan defaults and address the physical inadequacies of insured multifamily properties—an area that is of critical importance given that HUD expects to lose about $10 billion as a result of defaults on multifamily loans over the next 6 years; (2) deal with billions of dollars of backlogged housing rehabilitation needs, increased vacancy levels, and declining tenant incomes that exist in public housing; and (3) address the spiraling costs of providing housing subsidies to lower-income families.

• HUD has taken steps that begin to address its department wide deficiencies as well as the problems in public and assisted housing.[2] But many of these efforts are in their early stages. HUD's top management team has focused much attention and energy on overhauling the way the Department is operated. HUD has formulated an entirely new management approach and philosophy that is intended to balance risks with results, has begun to implement a substantial reorganization of field offices, and has initiated a number of other actions that begin to address the four fundamental management deficiencies. But HUD still has a long way to go.

• In addition to beginning to address its fundamental management deficiencies, HUD has recently proposed a major change in its programs and program delivery mechanisms through its Reinvention Blueprint. Implementing the blueprint will require major legislative overhauls and revisions to HUD's regulations. HUD's ability to effectively implement this blueprint may be seriously impeded by the Department's long-standing, systemic management deficiencies.

• Solving the problems at HUD and deciding on whether to adopt HUD's Reinvention Blueprint or alternatives to it will be extremely difficult and will require a full reexamination of federal housing policy and HUD's mission. Also, correcting management deficiencies at HUD and implementing major reforms will take years. Reforms—be they mild or drastic—could have serious budget and social implications because HUD currently serves millions of Americans by providing rental subsidies, making home ownership more accessible, addressing housing discrimination, and helping revitalize communities.

HUD'S PROGRAMS AND BUDGET

Established in 1965, HUD is the principal federal agency responsible for programs dealing with housing and community development and fair housing opportunities. Among other things, HUD's programs provide (1) mortgage insurance to help families become home owners and to help provide affordable multifamily rental housing for low- and moderate-income families, (2) rental subsidies for lower-income families and individuals, and (3) grants and loans to states and communities for community development and neighborhood revitalization activities.

HUD is responsible for the expenditure of significant amounts of tax dollars. Discretionary budget outlays for HUD's programs were estimated to be close to $28 bil-

[1] We identified areas throughout the government that are especially vulnerable to waste, fraud, abuse, and mismanagement and termed these "high-risk areas." See GAO *High-Risk Program* (GAO/AIMD-94-72R, Jan. 27, 1994).

[2] *Department of Housing and Urban Development* (High Risk Series, GAO/HR-95-11, Feb. 22, 1995).

lion in fiscal year 1994. Over three-quarters of this amount is for public and assisted housing programs. HUD also has management responsibility for more than $400 billion in mortgage insurance and another $400 billion in outstanding securities.

HUD'S MANAGEMENT DEFICIENCIES

Scandals that occurred during the late 1980s focused public attention on management problems at HUD. Internal control weaknesses, such as a lack of necessary data and management processes, were a major factor leading to the HUD scandals. Organizational problems included overlapping and ill-defined responsibilities and authorities between HUD's headquarters and field organizations and a fundamental lack of management accountability and responsibility. An insufficient mix of staff with the proper skills has hampered the effective monitoring and oversight of HUD's programs and the timely updating of procedures. Poorly integrated, ineffective, and generally unreliable information and financial management systems have failed to meet program managers' needs and have not provided adequate oversight over housing and community development programs.

HUD's slow progress in correcting the fundamental management weaknesses that allowed such incidents to occur and a concern that HUD needed congressional attention led us to decide in January 1994 that the Department warranted the focused attention that comes with being designated by GAO as a "high-risk area." Similar management deficiencies at HUD have been reported by HUD's Office of Inspector General (OIG) and by the National Academy of Public Administration (NAPA). The OIG's most recent Semiannual Report to the Congress (for the period ending Sept. 30, 1994), states that management controls, resource management, and data systems continue to be systemic management problems requiring significant improvement before HUD can substantially improve its programs' abilities to deliver services and results.

In addition to pointing out problems with HUD's organization, staff capacity, and information management and systems integration, NAPA reported that HUD has, from its inception, struggled to find a coherent identity.[3] A primary reason for this struggle is the huge number of programs that HUD administers and the diversity of these programs. Between 1980 and 1992, the number of programs for which HUD had statutory responsibility increased from 54 to just over 200. NAPA reported that since 1990, the Congress has created or substantially changed the mission of 67 HUD programs, although 25 of these programs were not funded as of fiscal year 1994.

NAPA noted that an overload of programs saps HUD's resources, muddles priorities, fragments the Department's workforce, creates unmeetable expectations, and confuses communities. Given the current and projected resources for the Department, NAPA believes that it is unlikely that improved management or changes to HUD's organizational structure can enable the Department to fulfill all of the missions implied in its many programs. NAPA concluded that the process of rationalizing HUD's programs would provide the badly needed opportunity for the Congress and the administration to decide what HUD is supposed to do.

EXAMPLES OF MAJOR BUDGET AND MANAGEMENT PROBLEMS

Three areas illustrate some of the budget and management challenges that face HUD: multifamily assisted housing, public housing, and the high cost of public and assisted housing programs.

HUD's Multifamily Housing Portfolio: Status and Problems

HUD directly subsidizes and/or insures over 20,000 multifamily properties with about 2 million units. These properties expose the federal government to substantial current and future financial liabilities. Also, while much of this inventory reportedly is in decent condition, it has been estimated that at least 15 percent of the inventory has severe physical problems that threaten tenants' health and safety.

A large portion of HUD's assisted housing liabilities derive from the use of FHA mortgage insurance, which protects lenders from financial losses stemming from borrowers' defaults. FHA insures about $43 billion worth of mortgage loans that support about 14,700 properties, which includes multifamily apartment properties, nursing homes, hospitals, housing cooperatives, student housing, and condominiums.[4] In addition to mortgage insurance, many FHA insured properties receive

[3] *Renewing HUD: A Long-Term Agenda for Effective Performance*, National Academy of Public Administration (July 1994).

[4] See also *Multifamily Housing: Status of HUD's Multifamily Loan Portfolio* (GAO/RCED-94-173FS, Apr. 12, 1994).

some form of direct HUD assistance or subsidy, such as below-market interest rates or section 8 project based rental assistance.[5]

A large number of defaults on FHA-insured loans have occurred in the past and are expected to continue into the future, partly because FHA has not effectively managed its insured loan portfolio. FHA paid out over $700 million in multifamily insurance claims in 1993 and established a reserve of $10.3 billion to cover additional losses on loans in the insured multifamily portfolio as of September 30, 1993. This reserve would have been even higher without the prospect of continuing section 8 project-based and other types of assistance used to prevent or delay loan defaults.

While some loan defaults are inevitable, early identification of troubled loans and prompt actions to address underlying problems are essential if defaults and resulting losses are to be minimized. Numerous studies over the last two decades by Price Waterhouse, HUD's Office of Inspector General, and us have identified weaknesses in HUD's default prevention activities. Many of the weaknesses identified were the same fundamental department wide deficiencies that we noted earlier in this statement, such as information systems that cannot provide relevant, timely, accurate, or complete information and do not adequately support the early detection of problem loans. Also, HUD does not have enough loan servicers with the proper skills to monitor the insured loan portfolio and service loans on properties whose owners have defaulted on their mortgages. Furthermore, physical property inspections by field offices, financial statement reviews, and on-site management reviews have not been performed in a way that consistently identifies and resolves problems.[6]

Many multifamily properties for which HUD provides section 8 assistance are in poor physical condition. A 1992 study estimated that about 3,200 HUD-assisted and/or insured properties were in such severe physical and financial condition that they needed almost $1 billion in new capital to correct those problems. Some of these properties were the subject of hearings held last year at which both we and the HUD Inspector General testified.[7]

While HUD has various enforcement tools to ensure that owners maintain HUD-assisted properties in compliance with housing quality standards and other requirements, the Department has used these tools sparingly and inconsistently. Also, current legislation and regulations limit HUD's discretion in dealing with certain properties in its multifamily portfolio. For instance, the current legislation on property disposition generally requires that HUD preserve the housing so that it remains available to and affordable for lower-income households.

Public Housing: Budget and Management Issues

About 1.4 million individuals and families live in public housing. Much of the public housing stock is in good condition, and it has been estimated to be worth almost $90 billion. Nevertheless, significant problems continue to plague public housing. Under current law, HUD provides funds to public housing agencies to modernize and operate their projects. However, despite the nearly $8 billion in modernization and operating funds provided annually by HUD, billions of dollars of backlogged needs for housing modernization, declining tenant incomes, and increased vacancy levels are problems that must be addressed.

Since 1981, almost $15 billion in modernization funding has been provided for public housing. However, despite this funding, a backlog of at least $20 billion still exists and needs continue to accrue. The backlog of modernization needs puts these properties at risk of further deterioration and worsens the living condition of affected public housing residents.

The second problem that public housing faces is the continuing decline of tenant incomes. Declining tenant incomes in public housing (the median income is now around $7,500) have resulted from changing federal laws that now (1) require public housing agencies to give higher priority for admission (called preferences) to the poorest of the poor and (2) require public housing agencies to charge residents 30 percent of their income for rent. In the last 6 years, the costs of operating subsidies have increased by $1 billion, from $1.9 billion in 1990 to $2.9 billion in 1995 (both amounts in nominal dollars). Public housing originally served mainly the working poor.

Increased vacancy levels have also had a detrimental effect on public housing. Vacant units provide no rent revenue, which leads to greater needs for operating sub-

[5] Project-based subsidies are attached to specific properties.

[6] We are currently reviewing FHA default prevention activities as part of a legislatively mandated study.

[7] *Federally Assisted Housing Conditions of Some Properties Receiving Section 8 Project Based Assistance Is Below Housing Quality Standards* (GAO/T-RCED-94-273, July 26, 1994) and *Federally Assisted Housing: Expanding HUD's Options for Dealing with Physically Distressed Properties* (GAO/T-RCED-95-38, Oct. 6, 1994).

sidies from HUD. Also, a unit of vacant housing means that an income-eligible family on the waiting list is not receiving public housing assistance. Since 1984, the average vacancy rate has increased from 5.8 percent to 8 percent. However, in some large public housing agencies where there are uninhabitable buildings, vacancy rates range from 15 to 41 percent. In our ongoing survey of public housing agencies, we identified 1,177 totally vacant buildings. Vacant buildings also exact a high toll in drug-related crime and vandalism.

With demand in most cities exceeding supply, why are vacancy rates in public housing so high? One of the primary reasons has been the lack of an effective maintenance program; that is, a lack of preventive maintenance, an inability to spend modernization funds in a timely manner, and little accountability for maintenance at the housing project level.

The problems with public housing are also a result of HUD's inadequate oversight. Although the Congress has provided HUD with significant authority for overseeing and intervening in the management of a housing agency, many of the same agencies continue to be plagued with poor conditions and poor management. We are currently conducting work related to HUD's oversight of troubled public housing and will keep you informed of our progress.

High Cost of Public and Assisted Housing Programs

Since 1977, the number of families assisted by HUD's rental subsidy programs has increased by over 2 million.[8] However, the cumulative effect of this action and the high cost of providing subsidies creates severe budget pressures on the Congress as it tries to meet deficit reduction goals.

According to the Congressional Budget Office[9] (CBO), both the number of families that receive rental assistance and the federal outlays for those subsidies have increased almost every year since 1977. CBO reported that the number of assisted families almost doubled from 1977 through 1994, rising from about 2.4 million to about 4.7 million. Growth has been generally slow over the past few years because the Congress provided funds for fewer additional units. Outlays for rental assistance have also increased steadily since 1977. According to CBO, real outlays (adjusted for inflation) more than tripled from 1977 through 1994, rising from about $6.6 billion to about $22 billion (in 1994 dollars). Outlays are expected to remain at the same current high level, if not grow somewhat. The relatively rapid growth in outlays is primarily due to (1) increases in the number of assisted households and (2) rents that increased faster than assisted families' incomes.

What does the high cost of public and assisted housing programs mean for HUD? For one thing, without a major change in federal housing policy, many of the housing programs have now reached the point at which they need additional budget authority to preserve the number and quality of the rental units that current programs assist.[10] Budget authority needs are directly related to certain assumptions, such as the length of the term of the section 8 contracts being renewed. Assuming a 5-year renewal period, CBO has estimated that the cost of preserving existing units will be about $22 billion in budget authority per year. As the Congress faces increasing pressure to reduce the deficit, these large figures present difficult choices for policy makers who must consider competing needs.

HUD'S PROGRESS IN IMPLEMENTING MANAGEMENT REFORMS

Even after years of reform, HUD continues to face the severe problems in organization, staff capacity, internal controls, and information and financial management that we discussed earlier in this statement. HUD has started to correct these longstanding deficiencies and will need congressional action to implement some reforms. HUD's top management team has focused much attention and energy on overhauling the way the Department is operated. HUD has formulated a new management approach and philosophy, intended to balance risks with results; has begun to implement a substantial reorganization of its field office structure; and has initiated

[8] These programs include public housing, section 8 tenant-based and project-based assistance, and section 236 assistance (generally, subsidized interest payments to help produce rental housing).

[9] *The Challenges Facing Federal Rental Assistance Programs,* Congressional Budget Office (Dec. 1994).

[10] Budget authority would be needed for several purposes, including (1) extending the life of assistance contracts that have started to expire, (2) providing incentives to owners of certain assisted housing projects to prevent them from dropping out of federal housing programs, (3) disposing of projects whose owners have defaulted on their federally insured mortgages, (4) continuing operating subsidies for public housing, and (5) reducing the accumulated backlog of repairs to the stock of assisted housing.

a number of other actions that begin to address its four fundamental management deficiencies.

HUD has also proposed or taken actions to address the problems affecting its multifamily and public housing programs that we discussed earlier in this statement. For example, the Department has done the following:

- Initiated actions to improve its ability to prevent default in multifamily properties, such as contracting out for property physical inspections and financial statement reviews and taking steps to develop an early warning system that should better identify financially troubled properties. For example, in November 1994 HUD organized a 24-member Special Workout Assistance Team (SWAT) to help field offices resolve the physical, financial, and ownership problems of troubled insured multifamily properties.
- Proposed that housing agencies be permitted to borrow against future years' modernization grants, use their modernization funds to replace demolished housing, and participate in more performance-based oversight that focuses on community partnerships to solve housing problems.

However, HUD now faces the formidable challenges of completing its plans, translating its plans into effective actions, and implementing its new management approach into the fabric of the Department's day-to-day operations. Sustained focus, commitment, and diligence by HUD's leadership and staff will be needed—something that has not accompanied past attempts at reform and that was recently reported as a concern by HUD's Inspector General.

IMPLEMENTING HUD'S REINVENTION PLAN MAY BE DIFFICULT

In December 1994, HUD introduced its "Reinvention Blueprint." In the blueprint, HUD proposes to restructure and consolidate many of the Department's programs. If the Congress supports HUD's reinvention strategy, implementing the blueprint will require major legislative overhauls, revisions to HUD's regulations and the design of formulas for allocating funds that are now awarded competitively. It will also place more responsibility on the states and localities to develop new plans to implement the programs and to develop performance measures. Considerable effort will also be needed to transform FHA as envisioned in the blueprint. Laying the massive changes envisioned under the blueprint on top of the mission-driven/customer-oriented changes currently underway creates a daunting set of challenges.

Reinventing Public Housing

Some of the most radical changes to existing programs are planned for the area of public housing. For example, under the blueprint, public housing residents will receive portable rental certificates, wherever practicable, permitting them to seek better housing elsewhere. States, local jurisdictions, and neighborhoods would be given the flexibility to design public housing programs to meet their needs while, at the same time, the public housing stock would be forced to compete with other housing stock in the local area. For public housing, major legislative and regulatory changes would include the following:

- repealing the current requirement that housing agencies replace on a one-for-one basis any units they demolish or sell;
- eliminating current federal preference rules for the occupancy of public housing;
- consolidating a variety of public housing capital programs into a single capital grant to housing agencies;
- consolidating funding for anti-crime purposes, coordinating services, and providing operating subsidies for public housing into a single fund; and
- requiring HUD to assume control over troubled public housing agencies.

HUD is already finding out that its plans for converting all public housing to tenant-based assistance within 3 years are overly optimistic. Program officials' now estimate that the transition will take at least 8 years. HUD believes the longer period is needed in order to (1) allow housing agencies to expend the $10 billion of modernization and other funds already provided by the Congress so that their housing stock can become competitive with the private market's, and (2) prevent the loss of valuable housing stock which might take longer than 2 to 3 years to be made marketable and which residents and local governments agree should be preserved. HUD officials recognize that there is still a substantial backlog of modernization needs and that billions of dollars have been invested in much of this stock. If public housing subsidies were converted to tenant-based certificates before the properties became competitive, the properties would lose vital rental income, which may prevent them from remaining available as affordable low-income housing.

Additional Efforts to Consolidate Programs

HUD may have difficulty implementing its proposals to consolidate several programs because of the time that would be required to work out program details and for communities to develop the plans and performance measures needed to implement the consolidated programs. For example, HUD has proposed a Community Opportunity Fund that largely builds on the Community Development Block Grant (CDBG) program and an Affordable Housing Fund that consolidates programs for housing production, rehabilitation, and home ownership. HUD proposes that local communities determine how these funds will be spent on the basis of a community-prepared consolidated plan. HUD has also proposed to consolidate the existing McKinney Act programs for assisting the homeless into a single formula-driven grant with similar planning requirements.

The intent of creating each of these funds is (1) to give states and localities added flexibility in how they spend funds and (2) to achieve accountability for results. Our report on comprehensive community revitalization efforts, which is being released today, indicates that community organizations would favor this type of funding approach.[11] Community development experts advocate a multifaceted, comprehensive approach to address the complex, interrelated problems in distressed urban areas. Flexible funding facilitates this approach. However, HUD's proposals will take time to implement because many communities have relatively little experience with the comprehensive planning envisioned by HUD. In addition, we found through our work that community development researchers have had difficulty in developing performance measures for revitalization efforts because communities' needs differ and some activities may not be quantifiable. HUD officials said that they have yet to determine what kinds of guidelines they will provide communities for planning and measuring performance.

Developing plans for allocating funds to programs for assisting the homeless may pose additional challenges. As we reported last year, HUD's earlier efforts to combine selected McKinney Act entitlement and demonstration programs were stopped when disagreements arose over how to design an allocation formula that reflected localities' relative need for homelessness assistance.[12] Program consolidation legislation proposed by HUD last year called for allocating funding much as it is allocated in the Emergency Shelter Grant and CDBG programs.

Transforming FHA

Considerable effort will also be needed to transform FHA into the entrepreneurial, government-owned corporation envisioned in the blueprint. For example, for single-family housing, the blueprint proposes that FHA will increasingly rely on third-party partners to design products that meet market needs and to ensure that FHA's insurance and credit enhancement are delivered as efficiently and effectively as possible.

Specific information on the markets FHA will serve, the relationship it will establish with partners in the housing market, and the mix of products it expects to offer is, however, not yet known. FHA is currently preparing a business plan to provide information on these subjects, as well as defining the resource requirements necessary to support FHA's new entity. FHA expects that this plan will be completed by April 1995.

FUTURE FEDERAL HOUSING AND COMMUNITY DEVELOPMENT POLICY

HUD's serious management and budget problems have greatly hampered effective implementation of its wide-ranging responsibilities. Major changes and actions are clearly needed. Such reforms, however, could have serious implications for the federal budget, federal agency management, and the families and institutions that HUD serves.

HUD's Reinvention Blueprint proposes a consolidation of many of the Department's programs. The blueprint is an evolving document, and many of the details of how the restructuring would occur are still being developed. The blueprint, however, envisions that HUD will retain much of its current mission, although the design and delivery of its programs will change. Others have suggested more drastic steps, such as moving HUD's functions to other federal agencies.

Any proposal must recognize that HUD has massive financial responsibilities and administers programs that affect millions of people. Balancing business, budget, and

[11] *Community Development: Comprehensive Approaches Address Multiple Needs But Are Challenging To Implement* (GAO/RCED/HEHS–95–69, Feb. 8, 1995).

[12] *Homelessness: McKinney Act Programs Provide Assistance But Are Not Designed To Be the Solution* (GAO/RCED–94–37, May 31, 1994).

social goals will be a formidable task. While each proposal will likely invoke considerable debate on its merits, we would like to lay out some fundamental questions that policy makers might ask in considering the federal government's role—and HUD's future—in housing and community development activities. These questions are the following:

• What are the needs of the poor and of distressed communities, and what federal housing and community development policies can best meet these needs?

• How should federal housing and community development policies be implemented? How should services be designed and delivered? How should funding be allocated? What mechanisms are needed to assure policy makers that funds are spent and populations are served as intended?

• What levels of government should deliver program services? What is the capacity of those governmental entities to deliver the services? What actions, if any, are needed to enhance the capabilities of those entities to effectively implement their responsibilities?

Mr. Chairman, this concludes our prepared remarks. We will be pleased to respond to any questions that you and other members of the Subcommittee might have. We in GAO look forward to working with the Congress to help address the issues before it.

APPENDIX—SELECTED GAO PRODUCTS

Department of Housing and Urban Development (High-Risk Series, GAO/HR–95–11, Feb. 22, 1995).

Community Development: Comprehensive Approaches Address Multiple Needs But Are Challenging To Implement (GAO/RCED/HEHS–95–69, Feb. 8, 1995).

Housing and Urban Development: Major Management and Budget Issues (GAO/T–RECD–95–86, Jan. 19, 1995, and GAO/T–RCED–95–89, Jan. 24, 1995).

Federally Assisted Housing: Expanding HUD's Options for Dealing With Physically Distressed Properties (GAO/T–RCED–95–38, Oct. 6, 1994).

Federally Assisted Housing: Condition of Some Properties Receiving Section 8 Project-Based Assistance Is Below Housing Quality Standard
(GAO/T–RCED–94–273, July 26, 1994, and Video GAO/RCED–94–01VR).

Public Housing: Information on Backlogged Modernization Funds (GAO/RCED–94–217FS, July 15, 1994).

Homelessness: McKinney Act Programs Provide Assistance But Are Not Designed To Be the Solution (GAO/RCED–94–37, May 31, 1994).

Section 8 Rental Housing: Merging Assistance Programs Has Benefits but Raises Implementation Issues (GAO/RCED–94–85, May 27, 1994).

Lead-Based Paint Poisoning: Children in Section 8 Tenant-Based Housing Are Not Adequately Protected (GAO/RCED–94–137, May 13, 1994).

HUD Information Resources: Strategic Focus and Improved Management Controls Needed (GAO/AIMD–94–34, Apr. 14, 1994).

Multifamily Housing: Status of HUD's Multifamily Loan Portfolios (GAO/RCED–94–173FS, Apr. 12, 1994).

Community Development: Block Grant Economic Development Activities Reflect Local Priorities (GAO/RCED–94–108, Feb. 17, 1994).

Housing Finance: Expanding Capital for Affordable Multifamily Housing (GAO/RCED–94–3, Oct. 27, 1993).

Assisted Housing: Evening Out the Growth of the Section 8 Program's Funding Needs (GAO/RCED–93–54, Aug. 5, 1993).

Government National Mortgage Association Greater Staffing Flexibility Needed To Improve Management (GAO/RCED–93–100 June 30 1993)

Multifamily Housing: Impediments to Disposition of Properties Owned by the Department of Housing and Urban Development (GAO/T–RCED–93–37, May 12, 1993).

HUD Reforms: Progress Made Since the HUD Scandals But Much Work Remains (GAO/RCED–92–46, Jan. 31, 1992).

Mr. SHAYS. I appreciate the statements that both of you made and would like to, for the record, note that the ranking member of the committee, Ed Towns, is here. He was the chairman the last 2 years and did not have the HUD portion, because we've combined two subcommittees. But it's just wonderful to have him as ranking member and may he always be ranking member——

[Laughter.]

Mr. SHAYS [continuing]. But also, to let our other new member, Connie Morella, know that members can insert anything for the record without objection. We waited for the "without objection" until we had a representative from the minority here to see if they had any objection to any of the material, the statements, and so on being inserted into the record.

[No response.]

Mr. SHAYS. Hearing no objection, they will be.

I'll start out just asking some pretty basic questions. Ms. England-Joseph, I want you to describe to us the whole concept of high risk areas. I know there's a GAO report coming out.

Also, may I first apologize for not mentioning that you are, rather than saying a representative of GAO, you are, in fact, the Director of Housing and Community Development Issues.

Ms. ENGLAND-JOSEPH. Yes, sir.

Mr. SHAYS. I apologize for not noting that earlier.

Just explain to the committee, if you would, what is meant by the term "high risk area."

Ms. ENGLAND-JOSEPH. Yes, sir. Several years ago, right after the HUD scandals back in the late 1980's, I think GAO became very concerned about the lack of attention that had been given to some pretty basic management issues in departments and agencies throughout government.

We did a little bit of soul-searching, too, because we had been doing some work at HUD and had been reporting on a number of those serious problems that resulted in the scandals. However, we recognized that, because of whatever attention was being provided to other issues of the day, that very little attention was being placed on the HUD issue.

Once the HUD scandals hit, we recognized that other agencies in government would be vulnerable to fraud, waste, and abuse. We were concerned that, if we didn't have a very direct, focused effort in those areas, that again we might have other HUD scandals.

So, in the late 1980's, early 1990's, GAO identified 18 high risk areas. HUD was not one of them. There were 18 areas throughout government. Since then, we have added several more high risk areas to that list and HUD, in January 1994, was the most recent one added.

Since the high risk areas were identified, we created a whole strategy of evaluation and audit work intent on focusing on those fraud, waste, and abuse areas. The idea was to try to change the way those programs are managed or designed, and that's what a series of reports has done over the last several years in trying to call attention on those high risk areas.

Mr. SHAYS. Why don't we call it a high risk department? Just a brief answer on that one. When I hear the term "high risk areas" I think of a part of HUD that has to be looked at. We're talking about all of HUD being a high risk department, yes?

Ms. ENGLAND-JOSEPH. When we first created the high risk areas, the areas were limited to program areas. I was the first to put HUD as an entire department on that list. So HUD is, as an entire department, identified as a high risk area. It is the only department on the list.

Mr. SHAYS. The challenge we have as a committee, just in terms of asking questions to you, Ms. Gaffney, or to you, Ms. England-Joseph, is given that the entire department is a high risk area department, wherever we dive in, we could spend hours. Which is why I just want to ask some basic questions.

If you were being appointed Secretary of this department, and you knew you had 4 years, at the beginning of a term, what would you do, I'll just say parenthetically, that we always hear about the basic issue of information systems being updated and a need to educate our employees and bring them up to a certain level. These are substantive issues.

It seems to me we then get into other issues. We start talking about programs, we start talking about other things, and the aforementioned matters are continually ignored, and then the next Secretary is stuck with the mess.

What would you be doing if you were the Secretary? What would be the first thing, the second thing, and the third thing? And I'll start with you, Ms. Gaffney. If you were the Secretary, what would be the first thing you would focus your time and attention on?

Ms. GAFFNEY. I think the first thing to focus on would be the multi-family portfolio. You probably would have to go project by project and find out what the condition of each project is, both physically and financially. Some of that is underway now. Then you would have to put it in a data system and then you would start analysis of, based on those facts, what are you going to do with each one of those projects.

Mr. SHAYS. What would be the second thing?

Ms. GAFFNEY. I think the second thing I would do is, I would launch a major campaign to do something about troubled public housing. And let me just say that, when I talk about that, I mean things like receivership, declaring a breach, a HUD takeover. I mean very severe action.

Mr. SHAYS. I'm just going to continue a little bit, and I'll give leeway to the other members.

What would be the first two things you would do?

Ms. ENGLAND-JOSEPH. I would put the information systems first, because I know I was struck when the new Secretary took over, he and many of his assistant secretaries were saying, "Where are the numbers, where are the facts on which to base any sort of decision?"

I think they were equally as appalled, as any of us would be about having to make decisions that are not based on information but for other reasons, and are anecdotal at best.

So with information systems, the problem at HUD has been they keep trying to make improvements and they don't put the kind of priority on it. A year goes by and suddenly money is being siphoned off to do other kinds of things.

Mr. SHAYS. Is that difficult for a department to do because it has to go through a morass of OMB and so on? Does the Secretary have the power and the resources to say, "We're just going to bring in a team of people; we're going to go through our entire organization, we're going to get the people with the skills and we're going to get the equipment and we're going to just do it?" Or is it just a gigantically difficult task?

Ms. ENGLAND-JOSEPH. There certainly are a lot of difficult hurdles to go through, especially on the acquisition side of information systems, that is procurement. But, on design issues and on the fact that they do have equipment there, it's a matter of designing the systems and getting people to use the information.

I don't think it's an equipment question as much as it is designing systems well and then getting people to use them, because bad data in is bad data out, and that's what they're faced with every day.

Mr. SHAYS. I might just say, before asking our ranking member, Mr. Towns, to ask questions, that we have another subcommittee of the Government Reform and Oversight Committee that's involved with the whole issue of management systems, by Chairman Horn, and we should be asking him to involve himself in this part of the issue.

Ms. GAFFNEY. Mr. Chairman?

Mr. SHAYS. I'm sorry?

Ms. GAFFNEY. I just wanted to ask you if I could say something on this issue?

Mr. SHAYS. Sure.

Ms. GAFFNEY. Part of what happens, it seems to me, in systems efforts, and one of the reasons that I would not say make systems improvement the top priority, is because, as soon as you say that, all the program people think you're talking about silly, bureaucratic things that don't make any difference to them.

What is really important is to make systems an integral part of something you're trying to do with a program, and you need to lead with that. Do you understand what I'm saying? That is what has happened at HUD.

Mr. SHAYS. Yes, I understand what you're saying. But I'm also making the assumption that, besides not having good data to make good decision, we're also not tracing money and costing ourselves a fortune in the process.

Ms. GAFFNEY. That's true.

Mr. SHAYS. It seems to me, fraud and abuse can run rampant in a system that doesn't keep accurate data.

Ms. GAFFNEY. That's true. And, I would say, the other thing is that funding for systems has been a problem at HUD.

Mr. SHAYS. Right. Did you want to just make one last comment?

Ms. ENGLAND-JOSEPH. Well, you said three things. I was going to tell you the other two things besides information systems.

Mr. SHAYS. Yes.

Ms. ENGLAND-JOSEPH. Because, when we identified HUD as a "high risk" department, we identified within that a strategy for the areas that we thought were the most vulnerable and that we wanted to focus our attention on. We put our focus on multi-family programs, and I would do the same if I were being named to manage HUD.

I would put the second highest priority on public and assisted housing for every much the same reasons. Three quarters of the budget goes to those programs and they are very poorly designed in terms of programs and very poorly managed in terms of systems.

Mr. SHAYS. Thank you. I've shown myself another 5 minutes, so if the clerk would provide the same time for each member. Mr. Towns.

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

Mr. SHAYS. If you would, use your mike.

Mr. TOWNS. Thank you very much, Mr. Chairman. Let me begin by saying, if I have to rank, I'd rather rank with you.

[Laughter.]

Mr. TOWNS. However, we'll work on that.

Let me, first of all, thank you for having this hearing. I think it's a very important hearing and, as I read some of the testimony and, of course, I listened to comments that were made, I guess probably, Ms. England-Joseph, let me begin with you.

You made, I think, a very interesting statement, that, should HUD get out of the housing business? Should they? I know you proposed it to us and then you made a statement about it, but I'd like to hear your views on it.

Ms. ENGLAND-JOSEPH. Actually, sir, I really think that's a policy decision. I'm posing the question because I think that's fundamental to whether you agree with the Blueprint or whether you want other proposals on the table.

So it's more trying to elevate the issue that we do not have a clear sense of what the Federal housing policies are in the Federal Government. That's why I'm posing it, not because I have an answer to that question.

I don't have a answer to that question, to tell you the truth. I think there are lots of issues involving HUD, housing programs in the rest of government, such as Farmer's Home housing and VA housing.

We have a lot of Federal players in the housing business today and we've got to look at what are we trying to do. We also have tax policy that drives housing almost more than anything else in terms of dollars. So there are quite a lot of other players that have something to do with Federal housing and Federal housing policy.

So I've just put HUD on the table with a number of other players in terms of what do we want to do with housing issues in the Federal Government.

Mr. TOWNS. Actually, I understand that and I think that's a good question to be raised, but who would deal with these families? If they would happen to go out of the business, who would deal with the families? Would you make any suggestions or recommendations as to who would deal with them?

Ms. ENGLAND-JOSEPH. Certainly I think there are possible options, such as looking at the way in which other Federal entities exist to provide similar kinds of services to families or individuals, such as HHS. There are certainly State and local entities out there if you wanted to completely devolve to the State and local infrastructure as a vehicle for providing direct assistance to individuals and communities.

You may want to redesign a HUD-type entity, but not of the size and with the same numbers of missions that HUD has. You may want some entity that serves people in a different way than HUD does today. So there probably are several options on a continuum from——

Mr. TOWNS. But there's nothing in place today. There's nothing in place to do that now, though.

Ms. ENGLAND-JOSEPH. Well, HUD does today provide, through Section 8 assistance and through public housing assistance to families and, certainly, in a very indirect way, CDBG, as it relates to communities that assist low-income families and, certainly, through home ownership, FHA insurance for first-time homebuyers.

So there a programs at HUD that do serve low-income families, just as Farmers Home does, and just as VA does.

Mr. TOWNS. I think it's a good question to raise. But the point is that I think that, in coming up with answers, I think we all have to be involved in the process of getting answers and I think that we know, because of what's going on now, that there's a lot of problems. There's no doubt in my mind.

But the Blueprint that HUD has put forth, are you saying that you feel that the Blueprint that's been put forth is not enough or does not answer the kind of questions that you're raising here?

Ms. ENGLAND-JOSEPH. The Blueprint is an excellent step, from the administration's perspective, in terms of putting a redesign on the table, and from the standpoint of pre-existing HUD mission—which is exactly what this Blueprint uses as the baseline—the way in which that Blueprint calls for a decentralization of Federal role to the State and locals. This approach is probably a much more efficient way of getting services directly to the people.

My questions regarding the Blueprint are that it really is only four or five pieces of paper right now. There are lots of questions about the implications of the Blueprint that I don't think details are available to anyone, not even at HUD, at this point. I think it's a work in progress and HUD is trying to design systems that are outlined in the Blueprint.

Right now, my concern with the Blueprint is that, in many ways, it captures program design and services as if it's a one-size-fits all situation. There are a lot of different types of people that need to be served in communities around the country.

We want to be sure that, whatever design we're talking about, and whatever decisions are made consider very clearly the implications for the elderly, for families with children, and for people with disabilities. Those implications have not been developed, much less analyzed, to be able to tell you whether the Blueprint really works or not.

Mr. TOWNS. Thank you very much. Ms. Gaffney, as you know, HUD is the administrative agency for the local partnership portion of the crime bill. What specific problems will HUD face carrying out the programs?

Ms. GAFFNEY. As I understand that program, HUD's role is somewhat undefined. It's supposed to administer the program and it's supposed to take actions if localities are not in compliance with the program. But, frankly, there has been very little discussion about what HUD will do or how HUD will do it. I don't think this is a program that was initially designed for HUD at all.

Does that answer your question?

Mr. TOWNS. Almost. Almost. Where should it be housed?

Ms. GAFFNEY. Well, my personal thought would be to ask why it couldn't just work somewhat like revenue sharing with the Treasury—without the need for an administrative apparatus to follow up, enforce.

Crime prevention is a very small part of what HUD does in its housing programs. We truly are not the expert in that area. I suppose Justice would be another place.

Mr. TOWNS. Ms. Gaffney, your testimony is far reaching and thorough in its analysis of cost savings measures HUD might undertake to improve its operations. What components of the Blueprint is HUD capable of carrying out under its present management and organizational structure?

Ms. GAFFNEY. I think HUD is capable of carrying out the Blueprint if the Congress cooperates—if we are really able to sort through, consolidate these programs, and the Congress cooperates with that. I think HUD is capable of organizing itself.

Could I just say, Mr. Towns, one thing that the chairman raised before, which was, essentially, is HUD capable of being reformed.

Mr. TOWNS. Yes.

Ms. GAFFNEY. Yes. I think the answer to that is yes. One of the reasons is, I think you should realize that the mess that we have is not all of HUD's making. There are a lot of people who have contributed to this and many of them are in the Congress, or were.

If we now collaborate in trying to streamline this thing, get a decent design, get something that is do-able and that allows flexibility for the localities, I really do believe that HUD can do it.

I know HUD can do it when we get to the ideal. It's these years in between that are really problematic, to me.

Mr. TOWNS. If the Reinvention Blueprint is not endorsed, should we continue to fund existing programs at the current level?

Ms. GAFFNEY. There are a series of programs that I think you would have to look at and consider not funding.

The preservation program, which is one that I talk about a lot, which we have labeled as a real ripoff to the taxpayers, this is not, in our judgment, a program that's benefiting the poor people. It's a program that's benefiting the owners. You would have to look at programs like that, and I would hope that you would revise funding for special purpose grants.

Frankly, without radical rethinking, I don't know what we do about public housing funding. You can't leave those people in the lurch.

Mr. TOWNS. Let me say that the Secretary came before us and talked about the Blueprint. And I'll be honest with you. I was impressed with some of the things that were being proposed and I think that they are ideas whose time has definitely come.

Do you think that the fact that there's not a lot of enthusiasm might interfere with the ability to move it forward?

Ms. GAFFNEY. Oh, no. I know I'm always negative, and I apologize for that. Let me try being positive. This is the chance of a lifetime. This Blueprint represents such a change in thinking on the part of HUD that it's almost unbelievable.

Don't you remember, a year ago, HUD said we had to keep one-for-one replacement; we had to continue funding all the programs just the way they were; and we had to maintain public housing.

The world has changed. We have a new vision and we have a chance to do it right for once. I am tremendously optimistic.

Mr. TOWNS. Thank you very much. And, Mr. Chairman, I see that my time has expired.

Mr. SHAYS. Thank you. I thank the gentleman and ask Bill Martini from New Jersey to have the floor and ask whatever questions you would like.

Mr. MARTINI. Thank you, Mr. Chairman and thank both of you for your candid testimony. As a new member, I'd have to admit it's not encouraging, but I think it's also an opportunity to address the problems that you've laid before us.

I'd really like to speak to something from a very personal experience that I had as a local city official before this new life, and that was as a member of a city council, and it was the Stewart-McKinney Act. You've mentioned several times in your testimony the need for more flexibility in this process of housing.

Particularly in, I guess, this Blueprint, there's a reference to the Homeless Assistance Fund, and you talk in there about a new grant program that would do just that, and I certainly hope that at least this part of it comes to fruition.

We had a situation in which there was a Federal parcel of land which was turned over to the municipality and then, all of a sudden, we woke up and found out we were now bound by the Stewart-McKinney Act which, in itself, was not a great problem. What happened, though, as a council, we began to want to develop that parcel as a multi-use parcel for senior housing, disabled, and homeless.

We had a fund available for the senior part of it and we had other moneys available through the private sector for the disabled part of it, and we had come up with a prospect, because our greatest need in that municipality was senior housing, by far. We had little need for homeless housing. Statistically, there was very little need for it.

Yet, we were now bound by the McKinney Act and so, to try to recognize or at least accept the provisions of that Act, we included homeless housing provisions in that project and we were going to build a 40-some unit project, bigger in scope than the housing coalition group wanted for their Homeless Act. They were proposing 16 units.

So here we had a chance, with private funds, et cetera, and yet we were bound by the McKinney Act. It went into litigation. It took 2 years. They prevailed. It just demonstrated to me very close on, a personal experience, in a small area that HUD is responsible for, how inflexible the process was.

Again, I mention that because it was a frustrating experience for the entire community. It turned them off to HUD, the McKinney Act, and the whole community was somewhat outraged because we were trying to provide housing for the homeless, so it wasn't just that issue, which is a sensitive issue in itself sometimes. But, in doing so, we were faced with this rigid program.

So I'm sure you've heard that. I don't know. I guess I'm interested to hear if that's been a common experience with the McKinney Act, for instance, and whether you know of any legislation

right now that would address that type of a situation on the McKinney Act or not, if you're aware of that.

Ms. GAFFNEY. To go to the second point first, it seems to me, if you look at the Reinvention Blueprint, there are—Chairman SHAYS. Let me ask you a question. Could you just talk a little louder?

Ms. GAFFNEY. OK.

Mr. SHAYS. It's borderline acceptable, but——

[Laughter.]

Ms. GAFFNEY. If you look at the Reinvention Blueprint, I think you'll find that there are some areas—it's what I was trying to say before—where we could move ahead. And I think this homeless consolidation is one of them. I don't think it's controversial.

I think pretty much everybody agrees it should be done and I think you might want to consider whether that might not be an area that the Congress could move ahead now, because the debate on the Reinvention Blueprint is going to be—I think it's going to take a long time.

I'm sorry. Your first question was?

Mr. MARTINI. Whether or not the experience that we had in this municipality was shared elsewhere throughout the country, a similar type of rigidity with the process?

Ms. GAFFNEY. Yes. It's common.

Mr. MARTINI. It frustrated everybody on an area that's sensitive to begin with.

Ms. GAFFNEY. Right. It's common. One other thing I would say to you is that one of the things HUD is very good at is writing regulations, and that's another area that HUD could move forward on its own right now and deregulate to the extent that it can, even without congressional action.

Mr. MARTINI. Thank you.

Ms. ENGLAND-JOSEPH. Because the specifics aren't really known for this homeless fund that they have in the Blueprint, I would be a little concerned that they really still want to keep their hands around that which we would provide in terms of funding for homeless use versus that that would have multiple uses, like for elderly and others that may not have been homeless but would be a multiuse kind of facility. So the way the program currently is written or this fund is written now in the Blueprint, it really doesn't specify that HUD would have this flexibility. They do consolidate a number of homeless programs into one broad fund or block. We have advocated or supported that because of the need for flexibility.

We've done actually quite a bit of work in the homeless area and, also, a report to this subcommittee that we're releasing today on comprehensive revitalization efforts in the community. Most community leaders told us just what you said, that there are so many Federal programs with strings attached, that they are not allowed to make good judgments about how to put all these different dollars together to make it work for what they need to achieve.

Instead, we've dictated a stovepipe approach to funding. So flexibility clearly is needed to do what you and others are trying to do. But the Blueprint still holds homelessness quite separate from the rest of the housing funds. Because that is the No. 1 priority the

Secretary has said he has, he may want to protect money for homeless and not to provide it for other uses.

So I think your question is still one that has to be addressed as a part of the fine details of this Blueprint.

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

Mr. SHAYS. I thank the gentleman. I call on Connie Morella, who is senior member of this committee now, and from Maryland.

Mrs. MORELLA. Thank you. I want to thank you for testifying and I want to commend the chairman for putting together a wonderful booklet, which has your testimony in it and good background.

The first hearing we had with Secretary Cisneros was certainly a welcome one, because we had already been hearing from constituents with regard to what they read in the paper about the Blueprint and the consolidation.

A few questions I might ask you that deal with like what kind of cost savings we might experience and what you think about these issues. One has to do with a voucher system. Does a voucher system really save money? I always worry about the quality of housing. Is there going to be housing available? Is this something that HUD is going to have to face if they go through with the concept of the voucher system?

And I don't know, maybe GAO and maybe the inspector general might have a response to it. So maybe I would start off with you, Ms. England Joseph.

Ms. ENGLAND-JOSEPH. The answer is, it depends.

Mrs. MORELLA. Yes.

Ms. ENGLAND-JOSEPH. Because the voucher system is not the panacea. It certainly has a lot of things about its design that are very, very attractive.

However, I really would hope that, whatever is ultimately designed in terms of Federal housing assistance, that we really don't tie the hands of local communities in making a decision about their affordable housing stock, and whether they need some mix of public housing, project-based assistance, and tenant-based vouchers.

Tenant-based vouchers work best if you have enough affordable housing available out there and at a price that's not going to just take it completely at a high level in terms of the average fair market rent. You really want to look at the condition in the community or the area in which you're trying to serve and then look for the most cost-effective approach to doing that.

Sometimes tenant-based vouchers are cheaper. Other times, you're going to find that public housing or project-based can be cheaper. It truly depends on the economic situation and the quality of housing that exists.

Mrs. MORELLA. Is there latitude offered in the Blueprint for decisions to be made on a local basis?

Ms. ENGLAND-JOSEPH. I would say that, based on the way in which I read the Blueprint, that latitude exists. But it's not clearly stated, that would tell me that at this point.

Mrs. MORELLA. Ms. Gaffney?

Ms. GAFFNEY. My reading of the Blueprint, as it now stands, is that we are going toward vouchers. But I would say to you that that Blueprint was issued without consultation with the many par-

ties who are interested in this subject, including residents. I think that consultation is going on now and I would expect that you're going to find more options in the legislative specifications that you'll be getting shortly.

Mrs. MORELLA. That's hopeful, because I think it probably could be called a survival document, put together with that in mind in a pretty hurried fashion.

I also have—again, reflecting, obviously, my district—concern about the 202 housing going into that affordable housing fund, because, in my area of Montgomery County, MD, we've had some very successful uses of the 202 program, and wonderful partnerships that have come about for elderly housing in particular.

Perhaps you would each like to make a comment about whether you see it as a cost savings in putting it into the affordable housing fund with everything else and whether you think it has enough latitude to serve as an effective modus operandi.

Ms. GAFFNEY. I don't think that the Reinvention Blueprint was ever formulated—and, Chris, you correct me if I'm wrong—in order to save costs. That was not the driving force.

Mrs. MORELLA. Did you hear that, Mr. Chairman, Mr. Ranking Member?

Ms. ENGLAND-JOSEPH. I would also say that I don't think the Blueprint really tried to. I don't know how exactly they tried to design or develop the Blueprint.

I've heard a lot of different stories. But I'm not really sure that they said, "OK, what happens to section 202 housing; how do we protect the elderly and projects that work well the way they're designed now?"

I think philosophically there was an effort to try to move toward tenant-based certificates and vouchers, rather than to try to deal with each of the characteristics and needs of people that we serve out there and the types of programs that exist out there to serve them. That's still one of the details that I think don't exist at this point.

Mrs. MORELLA. I thought I heard Secretary Cisneros, in response to a question I asked about this, say that contracts that had been entered into, for 40 years, for example, would be honored for that period of time. I thought that was excellent if, in fact, I heard that correctly.

Ms. ENGLAND-JOSEPH. I have not read in the Blueprint or heard in our discussions with HUD officials that they would try to cut short any of those contracts. I think they'd have a very serious legal issue on their hands and they would be in court for a long time.

So, yes, a lot of those contracts are going to be protected, simply because they are contracts that would last well into the year 2000.

Mrs. MORELLA. I think my time has elapsed, although I was also concerned about what would happen with hospitals and nursing homes. I guess that would be my final question.

Ms. GAFFNEY. They are still in the Blueprint, with FHA, the FHA insurance. They are still covered.

I would say to you that that's a question that we in the OIG would recommend that someone look at, and that is whether FHA is the right place with the right expertise to be dealing with hos-

pitals and nursing homes but, at this point, it is still part of their portfolio.

Ms. ENGLAND-JOSEPH. We actually were mandated by the Congress 2 years ago to do a study on the FHA fund that deals with hospitals, nursing homes, and retirement centers. We're going to be issuing a report on that this May, essentially to try to answer the questions that Susan just mentioned: what's happening in those funds and are they the best place to actually have those funds in terms of HUD? In some cases, HHS actually has responsibility for servicing those loans.

Mrs. MORELLA. It might be a good topic for a hearing, too, Mr. Chairman. Thank you all very much.

Mr. SHAYS. Thank you, Mrs. Morella. Before we get to our next panel, I just want to make a few general comments.

As I'm listening to the questions, and realizing, as we knew when we called both of you here to talk about an entire department, you're just kind of giving a menu and focusing our attention.

What you have accomplished is, you've put us on notice. In a sense, the ball is in our court in one respect, as to what we're going to focus in on, where we've going to advocate change, and so on.

The message I'm hearing from both of you is that we have a very troubled department. It's been troubled for years. We don't have the quality of staff in the department and the kind of training programs that gets them, the staff, continually on the cutting edge of these issues. It almost seems that, wherever we looked, we could have an interesting hearing and we could make some very needed suggested changes. I'm hearing, though, from you, Ms. England-Joseph, that some of this reorganization, in a sense, I'm sensing you think is changes on the margins. I'm hearing from both of you a concern that you don't know enough of the details.

When I say changes on the margin, if we're just trying to do this—your comment about the mission. We're not talking about the mission. Maybe we should be talking about the mission first, before we talk about how we reorganize. If we assume it's the same mission, then we reorganize one way. If we assume the mission is different, then we try another way.

I want to encourage you to be provocative for us. I was most awake when Ed Towns was asking the questions about what would take its place.

There's no reason why we can't think of the States doing it. There's no reason why we can't think of other departments doing it. There's no reason why we can't think of the private sector doing more. There's really no reason why we can't go in any different direction, if that makes sense, based on what we think the mission is.

You've served a very important function. I just feel sorry for your two colleagues that were required to listen to all of us talk. I'm just going to ask both Dennis Fricke and Chris Greer if you have any comment.

I know, Chris, you've been involved in this area for a long time. Is there any one or two points that you would want to make to this committee in terms of giving us guidance on how we should be proceeding during the next 2 years?

Mr. GREER. I guess I would just confirm what Susan said, that the two major areas are multi-family housing—and we've had several hearings on that—and large, troubled PHAs are very problematic and have been for many, many years, and they need to be dealt with very harshly, if that's the right term, aggressively, and not passively, as we have in the past.

I certainly think HUD can be reformed. I've been here for 28 years and I totally agree that this is an opportunity to take this Blueprint and do it right for a change, get HUD dealing only with the core mission. I think your statement about establishing the mission first and then organizing around the mission is the right way to go, and I would certainly encourage you to follow through on that.

Mr. FRICKE. Mr. Chairman, I guess just three quick points.

You started off by asking things that HUD does well. I think there's two basic areas that HUD does things well. They manage their FHA single-family portfolio generally well, and the mission that the single-family insurance program serves is generally, I think, a good mission. I think, second, they administer the tenant-based voucher and certificate programs well. So that would be my first point.

My second point, I would say, be skeptical when you hear you can save big dollars in Federal housing. Today, the outlays are projected in 1995 at $31 billion. Of that $31 billion, $24 billion of it is assistance to poor people, through three principal programs.

It costs about $5,000—again, we want to use averages—to assist a poor person a year. We assist 4.7 million families. That's $24 billion. Another big component of the budget is the CDBG program and the home program. When you add those two together, you're at over 90 percent of the outlays projected in 1995.

So any major cuts or any major savings in future HUD budgets are going to have to come probably in those two component areas.

My third point would be——

Mr. SHAYS. Before you get off that point, I would ask if some of the expenditures were contracted in past years?

Mr. FRICKE. Yes, they have. This would be more, Mr. Chairman, in terms of outlays, in terms of actual outlays, but you're correct in terms of the budget authority. That has been programmed in prior years.

I guess my third point would be in terms of when you hear about averages and how vouchers and certificates may be preferable than other types of project-based assistance.

I think, as Judy spoke earlier, in the area of public housing, clearly vouchers and certificates today are a less expensive way of assisting poor families than housing that would require major modernization or rehabilitation costs, which is almost equating a voucher or certificate to new construction. Unquestionably, it's cheaper.

Public housing authorities, though, that require little in the way of modernization costs and have operating costs that are about average or below comparable properties, I think you can question very definitely whether vouchers and certificates are less expensive. I, for one, believe that they would be more expensive.

I am a real proponent, I might add, of vouchers and certificates. If I were starting from ground zero today, vouchers and certificates, I think, are generally the way to go but, unfortunately, we're not. We're starting with a major inventory of housing programs.

Mr. SHAYS. Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman. Let me thank all of you for your testimony. I think that it might have been Ms. Gaffney that said that one size fits all—was that you or Ms. England-Joseph—but I think that I would like to take that a little further by saying that all should not wear it.

I'm concerned, as I look at the vouchers and all of that. I think that there are some areas in this country where this becomes extremely problematic and I think that whatever we put in place has to take that into consideration, where you have already very little housing stock, where you have already a tremendous homeless population, giving them a voucher really does not mean a whole lot because there's nothing to do with the voucher.

Since you posed the question to us, I'd like to pose one to you, because I know you'll be involved in further kinds of discussions and research on this issue—that we come up with something that is flexible enough where some of our areas that have big homeless populations, where there's no housing, that whatever program we put in place will be very sensitive to that issue.

To give a person a voucher, and there's nothing to do with the voucher, does not solve his or her problem. You can give them 10 vouchers but, if there's nowhere to go with the voucher, what does the voucher really mean? I'm hoping that we're flexible, because when you look at some regions, that's a problem.

Thank you very much for your testimony.

Mr. SHAYS. I would just conclude by thanking all of you for being here. I appreciate your testimony. This committee considers it a partnership, both in terms of our working on both sides of the aisle on this problem and working with both of you and your staff.

I have the sense that you all both work well with each other, we're looking forward to working well with the Department of HUD as well and seeing if we can seize this opportunity that's come before us. So work us hard. Thank you very much.

I would like to state for the record—and I call the second panel but, while they're coming—that we are joined by Cardiss Collins, who is the—we have two ranking members. We have the ranking member of the full committee as well, and it's wonderful to have her participation here.

Mrs. COLLINS. Thank you very much.

Mr. SHAYS. Would you like to just make any comment while we're waiting? I would call John Weicher and Vincent Lane and Ms. Cushing Dolbeare to come before the subcommittee.

Mrs. COLLINS. Mr. Chairman, I thank you for allowing me to join in this hearing. Unfortunately, I was at three other meetings, one in the Rules Committee just now, on H.R. 450.

I know you are concerned about the agency of Housing and Urban Development, as am I. I note that one of your witnesses today is Mr. Vince Lane, who is the chairman of the Chicago Housing Authority. I have roughly two-thirds of Chicago public housing

in my district, and I've enjoyed working with Mr. Lane over a long period of time.

I've known him to work very hard on very major issues that seem, sometimes, cataclysmic, but he's always been one who has been very open about what he was trying to do, and I think his views are often useful and well-informed and insightful. I certainly appreciate the testimony of all the witnesses that I've had the opportunity to hear, and especially look forward to that of Mr. Lane from Chicago Housing Authority.

I thank you for yielding me that time.

Mr. SHAYS. Thank you. It's wonderful to have all three come and testify. Mr. Lane, you are ably represented, extremely well represented in your representative from Chicago. It's nice to have you all here.

I ask you to stand. We administer the oath to all witnesses that come before us.

[Witnesses sworn.]

[Witness affirmed.]

Mr. SHAYS. I have, in this order, John Weicher, Vince Lane, and Ms. Cushing Dolbeare, and I think we'll just go in that direction, from my right to my left. I'm sorry. John, you're first. So we'll start in the center.

STATEMENT OF JOHN C. WEICHER, SENIOR FELLOW, HUDSON INSTITUTE, WASHINGTON, DC; VINCENT LANE, CHAIRMAN, CHICAGO HOUSING AUTHORITY, CHICAGO, IL; AND CUSHING N. DOLBEARE, CONSULTANT ON HOUSING AND PUBLIC POLICY, NATIONAL LOW INCOME HOUSING COALITION, WASHINGTON, DC

Mr. WEICHER. Thank you, Mr. Chairman, and thank you for inviting me to testify before the subcommittee today. I'm especially grateful because this year offers a real chance to improve the management of HUD, building on the work of this subcommittee over the last 6 years.

You've asked us to discuss management improvements and cost saving opportunities at HUD. We've talked broadly this morning in the previous panel about various issues at HUD, including program issues, and, like the other witnesses, I'm going to use the administration's Reinvention Blueprint as the basis for my remarks. I don't think it's the ideal way to reform HUD, but it opens the door for Congress to make major changes in policies and management and, I think, without major policy changes, fundamental improvements in management and operations will be difficult.

I want to begin by saying that I don't speak for the Hudson Institute, which is a non-profit policy research institution, or for anyone else. I'm here to speak only for myself, based on my professional work as an urban economist and my hard-won experience at HUD.

I've served at HUD twice in the aftermath of scandals, most recently from 1989 to 1993, as assistant secretary for policy development and research. Thus, I'm particularly familiar with your investigations under the leadership of Mr. Lantos and yourself, Mr. Chairman, during the last administration. You made an important contribution to the HUD Reform Act of 1989 and the improvements in HUD's operations.

This subcommittee knows a great deal about management problems and scandals at HUD, about Section 8 Mod Rehab, multi-family co-insurance, Title 10 land development, Robin HUD. All these latest scandals, the last ones——

Mr. SHAYS. The good old days.

Mr. WEICHER. Yes. The idea is not to have them again, I hope.

These latest scandals followed the pattern of earlier ones, going back for half a century. Nearly all of them have occurred in two program areas: FHA multi-family insurance and project-based low-income housing assistance. In fact, the worst HUD scandals and management problems have always come in multi-family programs that combine FHA insurance and project-based subsidies, and there are several reasons for this.

Mortgages on multi-family projects are difficult to underwrite. Every project is unique and has to be analyzed carefully, which is very staff-intensive. FHA isn't a large share of the multi-family market—less than 10 percent by any measure—and multi-family insurance isn't a large share of FHA's business, but it takes a large share of HUD's resources and it causes a large share of HUD's headaches.

FHA has about eight times as much single-family mortgage insurance in force as it does multi-family insurance but FHA's staff is split 52/48 between single-family and multi-family and I can assure you that multi-family insurance takes a vastly disproportionate share of the time and the energies of HUD's top management; and, even then, it loses money.

Because multi-family insurance is difficult to do well, it's prone to abuse. The scandals have typically involved fraudulent underwriting, inflating the estimated project costs so developers can obtain insurance for more than the value of the project and avoid committing any money of their own. These problems are compounded when the projects are designed for low-income tenants and HUD is subsidizing them as well as insuring them.

There's always pressure to underwrite subsidized projects generously, to make the program work. Once a project is insured, HUD makes every effort to avoid foreclosure so it doesn't have to take over the project and manage it. The alternative is to put more money into the project, so FHA's role as insurer forces it into a role as continuing provider of subsidies and this creates new difficulties.

It's hard to limit the subsidies to exactly the amount needed to keep the project going and not give the owners a windfall profit. Scandals are especially likely where subsidies are piled on top of each other. The subsidies will often turn out to be generous and, if that is the case, then the consultants come in, as they did in the Section 8 Mod Rehab Program.

The insurance also makes it hard for HUD to enforce the contractual responsibilities of the owners because the owners always have the option of defaulting and forcing HUD to take over the project. Ultimately, FHA's role as an insurer makes it the slumlord of last resort for the worst projects.

These are the programs that have kept this subcommittee busy and I'm sorry to say that the Reinvention Blueprint is likely to make further work for you.

FHA multi-family insurance would continue to unabated and unreformed. So would the production of privately owned low-income housing projects through the home block grant, which is renamed the affordable housing fund.

This fund is intended to be a production vehicle for lower-income housing, to build more of the same kinds of projects which have proven to be expensive and unsuccessful ways of helping poor people. Worst of all, the Blueprint also envisions FHA insurance on the projects financed by the affordable housing fund.

After all the experience with these programs, experience with which you are as familiar as anybody else who has been on this side of the table, Mr. Chairman, why do we need to create a new program like this now?

The Blueprint claims that changing the status of FHA would solve its problems. FHA would become a government-owned, streamlined, market-driven corporation, like the Postal Service. That doesn't mean it will run any better if it's doing the same things in the future it's done badly in the past.

FHA was an independent government agency for three decades before it was part of HUD and it had multi-family scandals then going back to Section 608 in the late 1940's. This reorganization wouldn't prevent scandals in the future.

But, while multi-family insurance would continue under the Blueprint, FHA would get out of the business of insuring home mortgages, which it does know how to do. You asked us to tell you about the things HUD can do. As Dennis Fricke said a few moments ago, this is one.

FHA's single-family mortgage insurance helps young, middle-income families buy homes and the premiums cover the losses. The mutual mortgage insurance fund has a positive net worth and, thanks to reforms proposed by Secretary Kemp and President Bush, and enacted by Congress in 1990, the MMI fund is moving toward an actuarially sound status.

Over 5 million homeowners have FHA insurance and about 800,000 families buy homes with FHA-insured mortgages every year. The Blueprint would take FHA out of this business. Instead, it would participate in joint insurance schemes with private firms and State housing agencies.

This is a fine way to lose money, as the multi-family co-insurance program demonstrated in the 1980's. HUD shared insurance premiums and risks with private lenders, letting the lenders do the underwriting. When the defaults occurred, it turned out that the lenders didn't have the capital to meet their share of the losses and HUD wound up taking the full loss. This has been one of its costliest failures ever.

State housing agencies have more capital than the private lenders did, but they've always wanted the Federal Government to take the risk in any partnership. When HUD made a similar proposal last year, the House voted to limit FHA's risk exposure on each mortgage to 35 percent, which is close to its average loss per default. The State agency said that would destroy the program. Fortunately, Congress didn't pass either version of it.

Whatever the legislative degree of risk-sharing is, even large units of government can go bankrupt, as Orange County is now

demonstrating, and nobody's pockets are as deep as the Federal Government's.

The likely outcome of these co-insurance schemes is that HUD would continue to bear all the costs of defaults but wouldn't get all the premium income. If the market perceives that co-insurance dilutes the full Federal guarantee on the mortgage, home buyers will face higher mortgage rates, as well.

Ultimately, the question is, who has the right to commit the full faith and credit of the Federal Government? I believe that right should remain with the Federal Government and not be given to private entities or other levels of government which won't have to bear the costs if they make mistakes.

The most positive proposal in the Reinvention Blueprint is the fundamental change in the structure of housing assistance for low-income families, a shift away from project-based assistance to tenant-based assistance in the form of vouches or certificates.

I don't want to take much time here to discuss the Blueprint proposals, except to say that I support them. HUD now provides tenant-based housing assistance for over 1.1 million low-income families and individuals in its voucher and certificate programs, almost as many as it serves in public housing.

Vouchers and certificates serve all kinds of families well in all kinds of housing. On a scale of 1 to 10, over two-thirds of recipients give their housing at least an 8.

Over half of the families in the program are African American or Hispanic and they rate their housing as highly as whites and members of other racial and ethnic groups; and HUD operates the program effectively with a small stuff. Again, this is something HUD does well and something that it can do well as it expands the program.

The only major change I would make in the Blueprint is to start vouchering out public housing in the private-owned projects now, not 3 years from now. The biggest problem is the transition for privately owned projects, especially those that carry FHA insurance. Again, it's the combination of FHA multi-family insurance and project-based assistance.

The FMRs often aren't enough to support the mortgages on these projects, even though they are enough to pay for decent, unsubsidized private housing. If tenants are allowed to move out and subsidies are limited to the FMR, then there may be defaults.

The Blueprint hopes to avoid defaults by marking to market the entire insured assisted housing inventory, project by project, paying part of the mortgage principal now, based on some estimate of what the projects are really worth.

I certainly agree with Ms. Gaffney on this subject. This will be immensely difficult, immensely staff-intensive, for the same reasons that it's difficult and staff-intensive to underwrite multi-family mortgages in the first place.

Moreover, FHA has far too little information about these projects to do the job. The IG reminded you of the hearings last year when HUD officials told this subcommittee that they didn't have adequate information about the condition of Section 8 projects and couldn't tell you how many were fit to live in. Without that infor-

mation, and much more information, HUD can't begin to make sensible decisions about the values of the projects.

Marking to market should be rejected. If HUD starts paying off lenders on the basis of its estimate of market values, this subcommittee will have a fertile field for investigations in a few years.

There are other management shortcomings in FHA's multi-family project data besides the lack of information on housing quality. Most serious is that FHA doesn't have an adequate accounting and budgeting system for Section 8 projects.

FHA doesn't know how much it should pay in rent subsidies to project owners. This problem was identified as HUD's No. 1 material weakness in the last administration and a major effort was started to create an adequate management information system. Of necessity, the development of that system carried over to the present administration.

The latest report of the IG says, quoting, "Progress is slow." Until that system is in place, FHA's inability to manage Section 8 project subsidies is costing the taxpayers hundreds of millions of dollars.

The IG also refers to other major FHA systems as, again quoting, "not progressing satisfactorily" or "progressing very slowly." I believe this subcommittee can perform a major service by monitoring the development of these management and information systems closely and urging the department to greater efforts.

To conclude, I think the administration's proposal to convert project-based assistance into vouchers will improve the housing conditions of low-income families and simplify program administration at HUD, but the proposals for FHA and the affordable housing fund move in exactly the opposite direction.

As HUD stops subsidizing the FHA-insured low-income projects that have already been built, the administration wants to begin building a new cycle of projects just like them. In a few years, it would be asking Congress for project-based assistance to keep the projects afloat. New forms of Section 8 Mod Rehab, new forms of flexible subsidy and, in a few years after that, this subcommittee would probably be holding hearings on a new set of scandals.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Weicher follows:]

PREPARED STATEMENT OF JOHN C. WEICHER, SENIOR FELLOW, HUDSON INSTITUTE, WASHINGTON, DC

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to testify before the Subcommittee today. I am especially grateful because this year offers an unusual opportunity to improve the management of HUD, building on the past work of this subcommittee over the last six years. The Administration's "Reinvention Blueprint" for HUD, dated December 19, 1994, opens the door for Congress to make major changes in management. The blueprint is directly mainly to policy changes, but its recommendations have significant consequences for HUD's management. The blueprint is not in my judgment the ideal basis for reforming HUD. It does not go far enough in many areas—some of the proposed policy changes are more cosmetic than real—and it contains some bad ideas, in the areas of both policy and management. But it certainly changes the political landscape, and offers the opportunity for Congress to make major changes in housing policy which would greatly improve the HUD's operations. Indeed, without major policy changes, fundamental improvements in management and operations will be difficult to achieve.

I should begin by stating that, although I am a Senior Fellow at the Hudson Institute, a nonprofit policy research institution, I do not speak for the Hudson Institute

or any other group. I am here to speak only for myself, based on my experience at HUD and my professional activities. I have served at HUD in three different administrations over the last 20 years, most recently as Assistant Secretary for Policy Development and Research under President Bush and Secretary Kemp during 1989–1993. Twice I came to HUD in the aftermath of scandals, in 1973 and in 1989. I am an economist by profession and my field of specialization within the discipline is urban economics. I have devoted my professional career to the study of housing and other urban issues, going back to graduate school; I have written nine books and numerous articles in both academic journals and the general press, and I'm working on the tenth book now.

MAJOR PROBLEM AREAS AT HUD

This Subcommittee has held many hearings about management problems and scandals at HUD. Your investigations and reports made an important contribution to the HUD Reform Act of 1989 and to the subsequent improvements in HUD's operations. It is useful to review HUD's major recent problem areas before turning to the specific proposals of the Reinvention Blueprint.

(1) Section 8 Mod Rehab, where low-income project owners received generous subsidies—often through the good offices of well-connected consultants—to rehabilitate low-income projects that were already receiving Section 8 assistance;

(2) "Robin HUD," the escrow agent who was able to pocket the proceeds when she sold FHA-owned houses;

(3) Multifamily coinsurance, where private lenders were allowed to do their own underwriting on FHA-insured projects, and receive most of the insurance premium, in return for taking part of the loss—which, it turned out, they could not do because they did not have any capital;

(4) Title X land development, where FHA insurance was used for such purposes as golf courses.

With the exception of Robin HUD, all of these scandals and problems occurred in two program areas: FHA multifamily insurance and project-based low-income housing assistance. They did not involve the housing voucher and certificate programs for low-income households; they did not involve the Community Development Block Grant. They involved FHA single-family mortgage insurance only in that Robin HUD sold foreclosed FHA-insured homes.

These scandals followed the pattern of earlier ones, going back over half a century. Indeed, the worst HUD scandals and management problems have always occurred in multifamily programs that combine FHA and project-based subsidies. There are several reasons.

First, mortgages on multifamily projects are difficult to underwrite and insure, and not just for FHA. Freddie Mac lost money on its multifamily mortgage purchases in the late 1980s and early 1990s and discontinued its multifamily programs for several years. Every project is unique, and has to be analyzed carefully, which is very staff-intensive. FHA multifamily insurance does not account for a large share of either the multifamily market or FHA's business. In 1993, the last full year for which data is available, FHA insured about 5 percent of all multifamily mortgage originations, and about 7 percent of all new multifamily units. HUD has about eight times as much single-family mortgage insurance in force as multifamily insurance. However, HUD's staff is split about 52–48 between single-family and multifamily. Multifamily insurance takes a vastly disproportionate share of staff time and resources, including the central management of the department.

Even then the insurance premiums don't begin to cover the costs. The multifamily insurance programs require annual appropriations to cover losses. FHA has had to establish a $10 billion loss reserve against a portfolio of $44 billion. The losses are continuing: the budget includes a 6 percent subsidy rate for multifamily insurance on average, meaning that losses will be 6 cents on every dollar of multifamily insurance—in addition to the 4 cent insurance premium. Losses are projected to range from 2 cents to 30 cents, in various multifamily programs. (A few programs are expected to cover their losses out of premiums.)

Also, because multifamily insurance is difficult to do well, it's prone to abuse. There have been scandals in FHA multifamily insurance going back to the Section 608 program in the 1940s. They typically involve fraudulent underwriting: inflating the estimated project costs so that well connected developers are able to obtain insurance for more than the value of the project and avoid committing any money of their own.

The problems with multifamily insurance are compounded when the projects are designed for low-income tenants and HUD is subsidizing the construction and the mortgage. There is always pressure to underwrite these projects generously, because

they are being built for "a good cause." Once a low-income project is insured, HUD makes strong efforts to avoid foreclosure on the projects, if it turns out that the project-based subsidies aren't enough to support the project, or if the landlord isn't able to manage the project efficiently. Foreclosing on the project would be admitting failure, and would require HUD to take over management of the project, which HUD does not want to do. The alternative is to provide additional subsidies. HUD's role as insurer therefore forces it into a role as continuing provider of subsidies, in programs such as "Flexible Subsidy" and the old "Troubled Projects Program."

This creates new difficulties. It is hard to limit the subsidies to exactly the amount that is needed to keep the project operating and not give the owners a windfall profit. Scandals are especially likely to occur where subsidies are piled on top of each other. Thus these programs invite abuse. This is where consultants have been especially active, as in the Section 8 Mod Rehab program.

The insurance also makes it hard for HUD to enforce the contractual responsibilities of the landlords, because the landlords always have the option of defaulting and forcing HUD to take over the project. Ultimately HUD's role as insurer makes it the slumlord of last resort for the worst projects.

These are the programs that have kept this Subcommittee busy.

WHAT DOES HUD DO WELL?

HUD's scandals and management problems are so spectacular that they obscure the day to-day accomplishments, and effectiveness, of the agency in its major program areas. Two of these areas deserve mention. because they would be affected by the Reinvention Blueprint.

(1) HUD provides tenant-based housing assistance for over 1.1 million low-income families and individuals in its voucher and certificate programs. We now have 20 years of experience with vouchers and certificates, first as an experiment and then as a full-fledged program. They serve all kinds of families, in all kinds of markets. On a scale of 1 to 10, over two-thirds of recipients give their housing at least an 8. This is true for African Americans and for Hispanics as well as for whites. Over half of the families in the program are African American or Hispanic. HUD operates the program effectively with a small staff.

(2) FHA single-family home mortgage insurance—Section 203—helps young, middle income families buy homes and the insurance premiums cover the costs of foreclosure and claims. The Mutual Mortgage Insurance Fund has a positive net worth, and, thanks to reforms proposed by Secretary Kemp and President Bush and enacted by Congress in 1990, the Fund is moving toward an actuarially sound status. At present over 5 million homeowners have FHA insurance, and about 800,000 more buy homes with FHA-insured mortgages every year.

THE REINVENTION BLUEPRINT

One way to evaluate the Reinvention Blueprint is with regard to whether it builds on HUD's demonstrated areas of effectiveness and discontinues the programs where HUD has failed in the past. By this criterion, the blueprint deserves one cheer.

Multifamily Insurance

Consider first the scandal-ridden and problem-plagued areas of multifamily insurance and project-based assistance. One might start to reinvent HUD by getting out of these activities. The blueprint does the opposite. FHA multifamily insurance would continue unabated and unreformed. So would the production of privately-owned low-income housing projects, and perhaps public housing, through the HOME block grant, renamed the "Affordable Housing Fund." This Fund is intended to be a production vehicle for lower-income housing. Cities and states are given money to build the same kinds of projects which have proven to be expensive and too often unsuccessful ways of providing housing assistance for the poor. There is no reason to believe that they will be able to build new projects that work any better than the ones now in operation. Moreover, the blueprint is silent as to how the prospective tenants are expected to afford to rent apartments in these new projects.

Worst of all, the reinvention blueprint also envisions combining Affordable Housing Fund money with FHA insurance on the projects that cities or states finance with that money. After all the experience with these programs—experience which finally led Congress to terminate this type of program in 1983—why create a new one now?

Reorganizing FHA

The Reinvention Blueprint proposes to change the organization and status of FHA in order to solve its problems. It would turn FHA into a "government-owned, streamlined, market driven" corporation within HUD. That doesn't mean it will run

any better, if it is doing the same things in the future that it has done badly in the past. The Postal Service is a government-owned corporation. It is neither streamlined nor market-driven.

For that matter, FHA was an independent government agency for three decades. There were scandals in the multifamily mortgage insurance programs of FHA before it was part of HUD, going back to Section 608 in the late 1940s, and there's no magic in this proposed reorganization to prevent scandals in the future.

Single-Family Insurance

While FHA would continue its complicated and expensive multifamily insurance programs under the Reinvention Blueprint, it would get out of the business of insuring home mortgages, which it knows how to do. Instead, FHA would participate in joint insurance schemes with private firms and state housing agencies.

This is a fine way to lose money, as HUD has demonstrated in the past. In the 1980s it created a similar program for mortgages on rental properties. HUD shared insurance premiums and risks with private lenders, letting the lenders do the underwriting. When defaults occurred, it turned out that the lenders had no capital to meet their share of the losses, and HUD wound up taking the full loss. This has been one of its costliest failures ever.

State housing agencies have more capital than the private lenders did, but splitting the risk is still an issue. Ultimately the question is who has the right to commit the full faith and credit of the federal government. I believe it should remain with the federal government, and not be given to private entities or other levels of government which will not have to bear the costs if they make mistakes. There is in addition the GNMA guarantee of timely payment of principal and interest on mortgage-backed securities, also a commitment of the federal government's credit which should remain a federal government responsibility.

The state agencies have always wanted the federal government to take the risk in any partnership with HUD. When HUD made a similar proposal in last year's housing bill, the House of Representatives wanted to limit FHA's risk exposure on each mortgage to 35 percent of the original amount borrowed, which is close to FHA's average loss on a defaulted mortgage, but the state agencies said the 35 percent limitation would "destroy the program." Fortunately, Congress didn't pass either version of it.

Whatever the legislated degree of risk sharing, even large units of government can go bankrupt, as Orange County is now demonstrating, and nobody's pockets are as deep as the federal government's. GNMA and FHA had to make good the losses in multifamily coinsurance. The likely outcome of these joint insurance schemes is that HUD would continue to bear all the cost of defaults, but with less premium income. If the market perceives that coinsurance dilutes the full federal guarantee on the mortgage, home buyers will face higher mortgage rates as well.

FHA insurance could and should be better targeted to lower-income families, say those in the bottom half of the income distribution; as things now stand, families with incomes of $80,000 a year are eligible for government-supported mortgage insurance in some parts of the country. That is a long way from the original clientele of young moderate-income families buying their first home. But for those young moderate-income families, FHA insurance serves a market that private insurers have so far not reached, and FHA serves it without losing money. FHA should not be protected from the private mortgage insurance industry; it is not protected now. But FHA's historic mission should not be compromised either.

SUBSIDIZED HOUSING

The most positive proposal in the Reinvention Blueprint is a fundamental change in the structure of housing assistance for low-income families. Here the blueprint shows an awareness of past problems and offers bold solutions. There would be a dramatic shift from project-based assistance to tenant-based assistance. Subsidies would no longer be provided to public housing authorities and the owners of the private projects, but instead would be given directly to the residents of these projects, who could choose their own housing. The new system would rely on the free choices of low-income families in the private housing market. By phasing out operating subsidies and modernization funding for public housing and converting the money to housing vouchers for the residents, the blueprint would force PHAs to compete with private landlords for tenants. It would take away their guaranteed, captive, tenants, and subject them to the discipline of the housing market. The same policy would apply to the private projects—Section 8 New Construction and its predecessors—as their current contracts with HUD expire. And all future incremental assistance would take the form of vouchers or certificates. Housing assistance programs would be "vouchered out."

These proposals makes sense in budget terms as well as policy terms, and the Administration deserves credit for making them.

Public Housing

Public housing is twice as expensive, per family per year, as a voucher or certificate, and in too many cases it provides much worse housing. The costs of operating and modernizing public housing have grown greatly over the years. For 1995 Congress appropriated $2.9 billion in operating subsidies, $3.6 billion in modernization, and $0.5 billion for "severely distressed" public housing. Per household, that is about $5,000. In 1980, operating subsidies were $0.9 billion and $0.5 billion worth of modernization was financed. Even allowing for inflation, appropriations in 1995 were more than double appropriations in 1980. Modernization especially sometimes seems to be a bottomless pit. Every few years there is a new study of modernization needs, and Congress raises the annual appropriation in response; then a few years later there is another study, and it turns out that total modernization needs are higher than they were in the previous study, even after spending several billion dollars.

In 1989, which is the most recent published data, the typical family living in public housing had an income of about $6,500. It is expected to pay 30 percent of its income—about $2,000—as the tenant share of operating costs. The $5,000 in operating and modernization subsidies and the $2,000 in tenant contribution add up to slightly more than the $6,900 per year that HUD budgeted for an incremental housing voucher or certificate. That is, if each family living in public housing received the $5,000 HUD is now spending on operating subsidies and modernization, and continued to spend 30 percent of its own income—$2,000—on rent, it could afford anything renting at or below the Fair Market Rent on the private market.

A dozen years ago, it was cheaper to maintain and operate public housing—once it was built—than to give out housing certificates. Today, that's no longer true. They cost about the same to operate, on an annual basis. And this leaves out the $85,000 per unit that it costs to build public housing. The interest on that $85,000 would be about $6,000 to $7,000 every year. The only good news in these figures is that the Administration's proposal to voucher out public housing can work, in budgetary terms. This offers a major opportunity for cost savings in both the short and the long run.

In the Reinvention Blueprint, these desirable changes are not scheduled to happen until 1997. The Congress may want to expedite that schedule; it can be done sooner. Meanwhile, public policy should start the process of vouchering out. Public housing project development could be zeroed out in this year's budget. There is no reason to build more subsidized projects now, if it is the policy decision to stop subsidizing them as projects two years from now.

Privately-owned projects and the insured assisted inventory

The Reinvention Blueprint proposes to apply the same "vouchering out" concept to privately-owned projects, though on a slower timetable and with transition practices that are likely to be counterproductive and costly. Costs in these projects are often higher than the cost of a voucher or certificate or the cost of public housing operating and modernization subsidies. Also, tenants have incomes about 15 percent higher on average than public housing tenants. Thus it is certainly likely that these projects too can be vouchered out at savings to the taxpayer. The blueprint proposal will work for their residents as well as for the residents of public housing.

As part of this process, the HUD budget proposes "dramatic changes" in the preservation program created by the Low-Income Housing Preservation and Resident Home ownership Act (LIHPRHA) of 1990. Commitments for continued subsidies to privately-owned projects would be scaled back to FMR levels, whereas LIHPRHA allows rents up to 120 percent of the FMR. Cutting back on subsidies that are out of line with market rents is highly desirable and can save the taxpayers substantial sums for many years.

"Marking to Market"

But at the same time the Administration is asking for authority to waste a great deal of the taxpayers' money in a misguided effort to avoid insurance claims. The blueprint proposes to "mark to market" the insured assisted housing inventory, project by project. This would involve paying part of the mortgage principal now, based on some estimate of what the projects are really worth. HUD proposes to spend $643 million for this purpose in FY 1996. This will be immensely staff-intensive and immensely difficult to do well, for the same reasons that it is difficult to underwrite multifamily mortgages in the first place. Moreover, FHA seems to have far too little information about these projects to do the job. In hearings before this Subcommittee last fall, HUD officials stated that they did not have adequate infor-

mation about the condition of Section 8 projects, and could not tell you how many needed major repairs. Without that information, and much more, HUD cannot begin to make informed decisions about the value of the projects. This year's budget proposes to "mark to market" only the older insured assisted inventory—Section 236 and Section 221(d)(3) projects—and does not mention Section 8. It's not clear whether the difference between the blueprint and the budget is a change in policy or a phasing in of marking to market, but in either case there are limitations in FHA's data on the older assisted projects also.

The way to find out what the projects are really worth is to stop subsidizing them. Financial incentives to preserve private projects should be discontinued, instead of being extended to additional projects during a three-year transition period. If the projects are going to have to compete with other privately-owned housing for tenants, that competition should start as soon as possible. This will be a gradual process as contracts and commitments expire or come up for renewal; most projects now have ongoing commitments from the federal government.

I recognize that some privately-owned projects may go into default without the project based commitment. Where the projects carry FHA insurance, that will cost the government money. It will still be cheaper to let that happen than to go on providing project-based subsidies, one on top of the other, in an effort to stave off default and avoid paying insurance claims.

Allowing projects to go into default, if tenants don't want to live in them, also shows that HUD is serious about tenant-based assistance. Other project owners will take notice, and perhaps take action to avoid default. I don't want to overemphasize this point, but it is a good idea not to leave project owners with the idea that they will always be bailed out by the federal government, no matter how badly they run their projects.

"Marking to market" should be rejected. It is simply the latest example of the problems that arise when FHA multifamily insurance is combined with project-based assistance, and it is likely to have the same result. If HUD is allowed to start paying lenders off on the basis of its estimate of market value, this Subcommittee will have a fertile field for investigations in a few years.

MANAGEMENT AND INFORMATION SYSTEMS

There are other major shortcomings in FHA's Section 8 project data besides the lack of information on housing quality. The most serious is that it does not have an adequate accounting and budgeting system for Section 8 projects. FHA does not know how much it should pay in rent subsidies to project owners. This problem was identified as HUD's "number one material weakness" in the previous Administration, and a major effort was started to create an adequate management and information system. Of necessity, the development of that system carried over to the present Administration. I note that the latest semiannual report of the Inspector General says that "progress is slow." Until the system is in place, FHA's inability to budget and account for Section 8 project subsidies is costing the taxpayers hundreds of millions of dollars.

The entire program area of FHA multifamily insurance has severe management problems. The IG refers to another major system, the integrated Multifamily Housing program system, as "not progressing satisfactorily." The overall FHA Management Information System, including single-family as well as multifamily programs, "is progressing very slowly." The shortcomings in management and information systems certainly cause waste, and invite fraud and abuse, although the structural flaws in the programs that I have previously discussed would still exist even with adequate management. I believe that this Subcommittee can perform a major service by monitoring the developing of these management and information systems closely, and urging the department to greater efforts.

CONCLUSION

The Administration's proposal to convert project-based assistance into vouchers could prove to be the final stage in a policy evolution that began in 1970, after a recommendation by the Kaiser Commission to give housing allowances directly to poor families. It is the logical response to a long history of dissatisfaction with low-income housing programs. Since at least the 1950s, we as a society have not been happy with public housing, and have recognized that the living environment in many projects is "worse than the slums they replaced," as the urban critic Jane Jacobs wrote in 1961. In reaction, successive Congresses and Administrations have enacted a series of programs to build subsidized private low-income projects, and then to repeal them a few years later: Section 221(d)(3) (BMIR), created in 1961, repealed in 1968; Section 236, created in 1968, repealed in 1974; Section 8 New Construction,

created in 1974, repealed in 1983. We have never been satisfied either with the cost or the quality of the housing produced in these programs, and so they are terminated and replaced—a rare event for any government agency.

But the Administration's proposals for FHA and the Affordable Housing Fund move in exactly the opposite direction. As HUD stops subsidizing the projects that have already been built, the Administration wants to begin a new cycle of FHA-insured low-income projects just like them. In a few years, it would be asking Congress for project-based assistance to keep the projects afloat—new forms of Flexible Subsidy and Section 8 Mod Rehab. In a few years after that. this Subcommittee would probably be holding hearings on a new set of HUD scandals.

Mr. TOWNS. Mr. Chairman, before the next speaker begins——

Mr. SHAYS. Yes, Mr. Towns.

Mr. TOWNS. The entire statement will be included in the record, right?

Mr. SHAYS. That is correct, because you had no objection.

Mr. TOWNS. OK. I just want to make that clear.

Mr. SHAYS. OK, and I will make that clear for the next two witnesses, Vincent Lane and Cushing Dolbeare.

Mr. Lane, you're the chairman of the Housing Authority?

Mr. LANE. Yes, I am.

Mr. SHAYS. May I ask before you give your statement, whether that is a full-time job in a large city?

Mr. LANE. I had the unusual circumstance of serving as both the chairman and the executive director for 3 years. Four years ago, I gave up the executive director's position and I basically serve as a volunteer, now.

Mr. SHAYS. But, at one time, they were both fully paid positions?

Mr. LANE. They were both fully paid positions. I served for one salary, of course.

Mr. SHAYS. It's wonderful to have you here, and you can be as provocative as you want. We welcome that.

Mr. LANE. I hope you'll say that after I'm completed.

Mr. SHAYS. Mr. Lane, if you're provocative, you have my thanks. And, Mr. Weicher, thank you very much for your testimony. I found it very helpful.

Yes, Mr. Lane.

Mr. LANE. First, I do want to thank you for having me here, Chairman Shays, and the other members of the committee, and I particularly want to thank Congresswoman Collins, who has, since I've been at the Housing Authority, been very supportive of the things that we've been doing at the Housing Authority, many of which have rubbed a lot of people the wrong way but, in the end, it's enured to the benefit of the residents of public housing in Chicago.

I sit before you today, not only as the chairman of the Housing Authority, which is the third——

Mr. SHAYS. Mr. Lane, could I ask you to suspend a second?

Mr. LANE. Yes.

Mr. SHAYS. I'm a little delinquent in not welcoming Mr. Fattah, who is here from Philadelphia, and I apologize. He came in earlier and I should have recognized, for the record, Mr. Fattah's presence.

Mr. FATTAH. Thank you, Mr. Chairman.

Mr. SHAYS. Thank you, Mr. Lane.

Mr. LANE. I sit before you today as not only the chairman of the Housing Authority in Chicago, which is the third largest in the

country and probably—not probably, but has the worst housing stock in America.

But I'm also president of American Community Housing Associates, which provides affordable housing to a large—thousands of families in America. While my testimony will focus on public housing issues believe me, I'm quite prepared to talk about the multifamily issues that Mr. Weicher has referred to, as well.

The last 6½ years, I've spent my time struggling with how do you change the environment for poor people, the housing environment for poor people in America; and I come up with some very simplistic solutions to this thing. I look at what works in the country and I look at what doesn't work in the country.

What works in housing is for people to go get their houses from the private market, just as we all do, sitting here, and it works pretty well. Then we look at what doesn't work. What doesn't work is what is hemmed in by government regulation and red tape.

I've been working on models that give public housing residents the opportunity to live in mixed-income communities, and all kinds of housing, whether it's high-rise or low-rise or single-family homes. There's nothing to say that a poor person can't, if given the support tools, take care of a single-family home.

My testimony today is not explicit. It's very general, but that's what it leads to. It means getting rid of the public housing authority bureaucracy, and we've got a major one in Chicago, and—and—getting rid of the HUD bureaucracy. It doesn't mean that you eliminate them altogether, but it means you change the way in which they perform.

What the housing authority in Chicago ought to be is an agency that gathers up resources, from wherever—whether it's Federal, State, or local, or foundations or private resources—it passes those out to people in the neighborhood. That's non-profits, it's for-profits in partnership, it's a social service agency. We set standards of what kind of housing we want and that standard ought to be no less than housing that you and I enjoy, and we should monitor performance.

Now, that reaches the objective of getting housing, this government providing the housing, decent housing, for the dollars that you're spending right now. I think Ms. Gaffney said it. We spend money now and we provide absolutely atrocious situations for people to live in, and we ought to be ashamed of ourselves.

How can we accomplish this? We accomplish it by giving localities maximum flexibility to deal with local housing issues. I've been struggling in Chicago with a high-rise inventory that rivals the pyramids in Egypt, and we can't solve the problem—you know, like Moses: who told the Egyptians to "Let my people go."

I can't get them out of the high-rises for those regulations that take the dollars that you send to us and you say, "You've got to put this money into Robert Taylor. You can't demolish this building and replace it with new, decent housing."

That's the first thing that needs to be changed. The dollars that come there ought to be utilized in the way that you can provide a decent environment, not micromanaged, and that's what HUD does is—micromanagement.

The other thing that we ought to have the right to do is to set income limits, rental policies, and we ought to have an easier time getting anti-social people out of these places. Because I can tell you, the things that we've done in Chicago—and some of them have been viewed as draconian. You know, you've heard about the sweeps and so forth.

But here we are, 6½ years later. In 1991, we had 100 homicides in Chicago. Last year, we had 44.

Mr. SHAYS. In the projects?

Mr. LANE. In the projects. We reduced them over 60 percent, when the homicide rate in the rest of Chicago is going up. We need to apply the same principles here.

The Blueprint, I applaud the Secretary for taking the initiative and realizing that business is not going to go on as usual at HUD—in fact, not anywhere in America—and saying we ought to try to take this opportunity, with the change in Congress, to do something different. And he's done that.

Is it perfect? Absolutely not. We need more flexibility. I am buying single-family homes right now and I'm providing those homes to public housing tenants on a lease-purchase basis. I'm providing the first group of homes to some residents that we put to work doing our rehab., rehab'ing our apartments about 2½ years ago.

You know, those residents started out making $14.50 an hour and some of them are now making $30 an hour. There were originally 300. Did they all make it? No. 150 of them made it, though, and that's what we've got to look at. We've got to, somehow, start making a dent in this culture that we've created in this country, of dependency for poor people.

Poor people may not have college degrees, but they do have the ability to help themselves. What I hear from my residents, throughout Chicago, is, that they want a chance to do what everybody else does in this country—get a job, get into a living situation where they can ultimately own it, and provide a safe environment for their children and decent schools for them to attend.

That really is where we ought to be. The Blueprint does give us the ability to do that. The block grants to the cities and States—and I know that's got to be debated. But I can tell you that the money—even though there's this thought that you drop it into a place like Chicago or New York, or Tammany Hall, or Boston, that somehow the local aldermen will gobble it up and run off with it.

That's a problem that ought to be addressed, but you can do that by setting broad standards like: You're going to block grant it to the cities. You don't want to leave an open checkbook—you want to tie down some parameters, like you can't recreate a bureaucracy at the local level, as opposed to what you have here at HUD, so you limit the amount of money that could be spent on administrative fees, so that you get the maximum number of dollars going directly into these programs.

It will work most effectively in major cities, because you need those other city resources that mayors have, of CDBG, he's got planning dollars, they've got, now, the enterprise and empowerment funds. Localities can match up these programs.

Let me pose a question to all of you. The approach to solving inner-city problems in this country has always been on the basis

of charity, altruism, and subsidy. We've seen the steady decline in conditions in urban America, inner city America.

Most healthy neighborhoods are healthy because there are some resources there to help deal with those problems. Those resources, believe it or not, existed in African American communities 40, 50 years ago, because you had doctors and lawyers and bus drivers and school teachers and people on welfare and the neighborhood bum, all living together. The institutions were strong, however. The retail communities flourished. The churches were healthy.

Public policy, overly impacting working class neighborhoods with housing subsidies dramatically changed the face of inner-city America. We can no longer afford, whether it's public housing or privately assisted housing, to dump subsidies in concentrated areas in our cities. We've got to de-densify poverty.

Now, I take a lot of heat about that, because it affects a lot of people. It may affect—you know, some of the minority elected officials who have just gotten to the point where they have majorities in their districts. This could change the demographic profile of those districts. I suggest, to them and to you, that a healthy constituency is good for everybody, including elected officials.

Then I have the other thing, when I talked about——

Mr. SHAYS. If you could wrap it up?

Mr. LANE. Yes. I'm going to wrap it up right now.

Mr. SHAYS. Because we'll have questions for you, as well.

Mr. LANE. When I talked about moving poor tenants out to the suburbs, some of the mayors suggested around Chicago they were going to meet me at the border to cut me off. Well, I didn't want to suggest that we're going to wholesale move people to the suburbs but, clearly, that's threatening to some suburban officials.

Well, I know that there are successful housing programs that provide choice in location to poor people, like Montgomery County in Maryland, where they limit—and effectively, it's a quota—the number of low-income people that are subsidized in any community. These are the kinds of things that we need to try to take advantage of in this Blueprint.

The Secretary has given us at least the target and now, what we have to do is to make sure that the proper controls are there so that we can achieve what I think we all want and what I know our residents want.

That is, to promote healthy families with family values and community cohesiveness and work ethic and, most of all, even though I'm a public official, religious underpinning. That's what's going to get this country and these communities back to the point where they contribute, rather than are a drain on America.

Thank you.

[The prepared statement of Mr. Lane follows:]

PREPARED STATEMENT OF VINCENT LANE, CHAIRMAN, CHICAGO HOUSING AUTHORITY, CHICAGO, IL

Good Morning. I would like to begin by thanking Chairman Shays and members of the committee for asking me here today to share my thoughts on the change contemplated in the Administration's Reinvention Blueprint of the U.S. Department of Housing and Urban Development. I would also like to acknowledge Congresswoman Collins for her years of commitment and the support and assistance she has given me during my tenure at the Chicago Housing Authority.

This morning, I sit before you not only as the Chairman of the Chicago Housing Authority—the third largest and one of the most troubled in the nation—but also as President of American Community Housing Associates, one of the largest providers for affordable housing in America.

While my testimony will focus on public housing issues, I will be more than happy to answer any questions the members of the committee may have about other aspects of the proposed blueprint.

For the last six and a half years, I have been struggling with the question of how to craft a new way to deliver public housing within the current housing program. Having inherited one of the poorest, most concentrated, most poorly designed and maintained housing in the nation, I had to concentrate my time and resources on stopping the slide that began in the early 1980's and had accelerated with the proliferation of gang violence and its disastrous consequence. Our successes have been significant and innovative, but because of over regulation and HUD red taps, the changes have only been incremental. Today, we have an opportunity to stop tinkering around the edges of the public housing program, and bring about a fundamental change in the way we deliver housing to low income Americans.

The Blueprint presented to the Congress by Secretary Cisneros is the boldest attempt to reinvent the public and assisted housing program in their history. It rethinks the role of the federal government in providing low income housing and move drastically to deregulate housing providers. But we need to move beyond the Blueprint. We need to create a unified housing program that addresses the need to both private, assisted housing as well as public housing. We can no longer isolate the poor in high density enclaves that perpetuate the negative pathologies that exist in our inner-cities.

In the public housing program we are saddled with over regulation, a bloated local bureaucracy, a troubled population, unfunded mandates, badly located, badly designed and badly maintained housing—the unfortunate results of bad federal policy and bad local politics.

Over the last three months, I, like many of you, have been talking to public housing professional, for-profit and non-profit housing developers and managers, housing finance experts, public housing residents, Members of Congress and their staffs on how we can overhaul the system without abandoning our commitment to the creation of housing opportunities for low income Americans. As one housing provider told me, the deck was stacked against us. We were doomed to fall once we set on a course to have housing solve all the non-housing problems of our population. Unfortunately, because of the lack of resources in public housing communities, PHAs are often left to be social workers, law enforcement, health professionals, job providers and, now, educators for its residents. By default, this biggest of unfunded mandates has made us fall at our core mission: the provision of safe, decent and sanitary housing.

As we move forward, I foresee program that embodies our principle.

The first is deregulation. Well-intentioned regulations designed to protect the public's involvement and provide assurances to program participants have served to put a stranglehold on public housing authorities and our residents. Small, well-managed authorities cannot compete with local private housing providers because of restrictive occupancy and rent policies and the high cost of doing business with the government. Largo troubled housing authorities like ours in Chicago are not provided the flexibility that we need to supply innovative solutions to our unique problem.

In Chicago, we could greatly benefit from the lifting of the HUD regulatory foot from our necks in the areas of finance and administration, leading and management as wall as modernization, demolition and development.

In what a former Assistant Secretary for Public and Indian Housing called the "Mother May I?" environment, housing authorities are saddled with procurement and personal policies that unnecessarily exceed state and local requirements. They required us to submit seemingly endless pre-approval requests and reports to HUD on a variety of financial and administrative matters. This prevents us from quickly and efficiently implementing programs when they could evaluate programs on a post-audit basis and take appropriate action at that time.

By deregulating public housing authority, you could no doubt reduce the cost of operating public housing. PHAs are only recently being provided some limited flexibility in setting rental and leasing policies that allow it to create mixed-income communities and set proper balance between resident rights and responsibility.

The final irony in all of this is the inability of troubled housing authorities to effect vast improvement in the housing that it deliver to low income families. In Chicago, I have advocated the demolition of long vacant buildings and the deconcentration of the poverty in our largest family development. Current require-

ments for one for one replacement of demolished housing hinders our ability to create meaningful change. Even worse is our inability to leverage our current assets to fund new development. We cannot mortgage our property; we cannot borrow against anticipated future subsides. and grants; we cannot lease private units nor assign our subsidies to these units. This all means that we cannot provide residents the choice of housing opportunities that is our vision for the future of Chicago's very low income families.

As an example of well-intentioned regulation that are being used by short-sighted bureaucrats to hinder change, I would like to describe our effort to demolish a vacant building in Congresswoman Collins' district.

On August 11, 1994—over eighteen months ago—the Chicago Housing Authority requested approval to demolish a vacant 262-unit building in the Cabrini-Green development. The building had been vacated in the fall of 1992 following the shooting of seven year-old Dantrell Davis by a sniper perched in one of the building's many vacant units. Since the demolition request was submitted, more than 25 letters have been exchanged between the Authority and HUD regarding the application and related matters to date, we have yet to receive approval to demolish a building that has been standing vacant for more than two years.

Each time the Authority cleared a hurdle, HUD staff erected another. As time went on HUD began to cite reasons that the application could not be approved—reasons not found within any statue, regulation or handbook. The last letter from HUD stated that they could not "in good conscience" approve our request.

I won't dwell on this ongoing episode, but I do believe it is an example of why deregulation can only serve to reduce cost and improve the efficient delivery of housing. I'm sure that if tens of thousands of dollars of staff time—both at HUD and the PHA—are spent on easy decision such as this one, it is mind-boggling to think of the costs of deliberating the tough ones.

With deregulation, I believe that the authority can immediately save 10–20% of our current operating budget.

Over time, as we revamp our portfolio—eliminating obsolete, deteriorated structures with newly developed or newly renovated units scattered throughout the metropolitan area—I believe these saving over our current true operating costs could be as high as 50%.

Many of our employees are now needed in self-defense in the paper war waged by HUD "bureaucrats." With deregulation, the need for our PHA bureaucracy to match HUD's bureaucracy would be eliminated. The need to maintain a $70 million police and security force will be eliminated. The need to spend up to ten million dollars a year in elevator repairs will be eliminated.

The second principle embodied in any new program should devolution.

As local housing authorities change the way they do business they must be allowed to do so the way they see fit. The nature of the structure of the new delivery system is something that should be designed at the local lever. All localities are different and we should allow them to address these matters in the manner that is best for them.

If we are allowed to change in order to compete tenants with other housing providers on a level playing field housing authorities can do it. At the end of the day they may not look like housing authorities, they may not be called housing authorities, but they will be able to succeed in their original mission set forward almost sixty years ago.

The third program principle should be preservation.

The public housing program is inherently different than other social service programs in that there is a physical asset at stake—an infrastructure of 1.4 million units that to a great extent should be preserved and improved. The country's public housing is a valuable commodity. We need to maintain a significant number of hard units over time. The PHA should have the flexibility to provide replacement housing with other certificates or hard units.

Finally, any new housing program should focus on community development.

In the past, the public housing program was not a community development program. In fact, in large urban areas the program destroyed communities, not develop them. The public housing program of the future can serve as a catalyst for the redevelopment of blighted inner-city neighborhoods. It must result in the creation of stable, mixed income communities. It must give residents a choice in their housing and opportunities for homeownership. It also must have a direct or indirect impact on other community issue such as education, crime, and employment.

The retooling of public housing and the massive change that can result must also result in the improvement of the economic health of the community. As we rebuild, we must reinvest. That means building capacity in the community and leaving assets behind. Those who benefited from the initial construction of public housing in-

vested their profits elsewhere. Those who benefit from reconstruction of public housing should be members of the community themselves in partnership with government and the private sector.

With these principle in mind, I believe that we can design a program that meets the needs and challenges of a shrinking government and a growing low income population and design program that reconstitutes urban neighborhood that again instill family values, community cohesiveness, a work ethic and provide a religious underpinning. That will be our true test of success.

I would be happy to answer any questions you may have.

Thank you.

Mr. SHAYS. Thank you very much, Mr. Lane, and we'll be asking you some questions. We appreciate very much your testimony.

Ms. Dolbeare.

Ms. DOLBEARE. Thank you very much, Mr. Chairman. I very much appreciate——

Mr. SHAYS. I'm going to ask the three of you just, in the end, say where you might agree or disagree with each other on any of these points, rather than thinking of you as a monolith here.

Ms. DOLBEARE. OK. Very good. I want to thank you for the invitation to testify today.

I began my career in housing just 3 years after the enactment of the Housing Act of 1949, which set as the national goal "a decent home and a suitable living environment for every American family," and I've spent my career since then both as an analyst and advocate to try to do whatever I could to make that promise a reality.

I'm testifying today, obviously, from a somewhat different perspective than the other witnesses, because I have not been involved in operating programs or running programs, although I've had a fair bit to do, I guess, with various components of some of the programs we've talked about.

I've also viewed housing not as bricks and mortar, and not as financing mechanisms, as much as the basis of family and neighborhood and community life and, therefore, it's had such a high priority for me.

On the HUD Blueprint, the overall approach that HUD proposes, I think, could produce an excellent set of housing and urban development activities if it were adequately funded, if it contained substantive targeting and performance requirements which would be monitored and enforced, and if it included adequate transition provisions to prevent the displacement of current tenants without providing them with equal or better choices and to prevent the loss of decent, affordable developments from the stock.

I want to say also that, back in the early 1970's, I was involved in drafting a housing allowance proposal, which was one of the first that came along which was a predecessor to the voucher program, and I have been a strong proponent for vouchers and tenant-based housing assistance from that day to this, but I've never thought it was the sole solution.

One of the disagreements I have, therefore, I think is with my friend, John Weicher, on the importance of project-based subsidies.

I see vouchers and housing allowances as being targeted to cover the affordability gap between what low-income people can afford to pay for housing and what housing actually costs to provide, and I see the project-based subsidies as being very necessary, if we're looking at housing in the neighborhood context of what do we do

to rehabilitate or improve neighborhoods and how do we provide housing for people to live in the neighborhoods where they would like to stay if those neighborhoods can be maintained as viable.

I also think that it's much too simplistic——

Mr. SHAYS. Could I interrupt you just a second——

Ms. DOLBEARE. Yes.

Mr. SHAYS [continuing]. To say, when you say you see that, you see that as what should happen or what is happening?

Ms. DOLBEARE. What should happen.

Mr. SHAYS. OK.

Ms. DOLBEARE. And, to a high degree, what has been happening. I think that we need to recognize that our housing programs have shifted very dramatically from 1949, and 1968, and 1974, so that the major vehicles now for providing housing assistance are rehabilitation, which is done with CDBG funds—I'm talking about additional project-based subsidies—and the kinds of developments that are built with the HOME funds.

I don't, in my own view—and this is something that has yet to be documented by evaluations—I don't see the kind of developments that are going to be funded and are being funded by the HOME program as being analogous at all to what was done by the Section 8 new construction and rehabilitation programs or the predecessor programs.

I think it's a very different form. HOME, and the Affordable Housing Fund proposal, are as different from the conventional ways of subsidizing housing, I believe, as community development block grants were from the urban renewal programs which preceded them. I think we need to recognize that as we talk about whether we have project-based subsidies and how we do them.

I would also like to note that a great many of the things that we have talked about today as making HUD programs difficult and making them highly costly are the results of legislation that was put in place 10, 20, 30, and even 40 years ago.

One of the characteristics of housing is that what we do today plays out for future generations and we, I think, need to look at how we approach housing in order to try to make sure that we don't tie the hands of future governments and future owners and future—well, future governments at all levels and future owners—by the kinds of restrictions that we write in today. I think that the proposals in the Blueprint, in this sense, represent a step forward over the kinds of contracts and long-term commitments which we made in the past.

I think it's important to recognize—and Judy England-Joseph started with this—HUD's mission. To me, HUD's mission is to try to attain that goal of the 1949 Act, the "decent home and suitable living environment for every American family." Maybe it could be done in some other way, but HUD is now the agency that is charged with doing that.

I think, in order to do that, we need to start with the problem that we're facing. I would just like to point out—and my testimony elaborates on this—after having had subsidized housing programs of various types since the middle of the 1930's, we have just about reached the level of having 5 million occupied subsidized housing units, including those with tenant-based subsidies.

We now have, in this country, according to a report which was prepared under John's jurisdiction when he was at HUD—the report on the worst-case housing needs—are more than 5 million very low-income renter households with worst-case housing needs: defined as not living in subsidized housing, paying more than half of their income for housing, or living in seriously inadequate housing.

That 5 million figure does not count the homeless—because it was based on an analysis of housing units and who occupied them—although homeless people are obviously those with the most critical housing needs. So that, just to deal with our worst-case housing needs, we need to double the number of households that are now living in subsidized housing units.

I would make the point that about 75 percent of those households have only the problem of high housing costs and they are living in otherwise reasonably adequate and satisfactory units. So that I think that there is clearly a major role for expanding housing allowances.

My concern is that, if we are simply talking about going to tenant-based subsidies and adding another 50,000 units proposed in this year's HUD budget or 100,000 units, or whatever, we're not going to get there from here. I think that, in reforming our housing programs, we need to look at meeting the dimensions of the problem.

The difference between the amount that people would pay for housing if they paid 30 percent of their income for housing and what they were actually paying for housing in 1989 was $24 billion.

In other words, with $24 billion of housing allowances, you could have covered the difference between 30 percent of income and what people were actually paying for housing without any income cutoff for every family in America that was paying more than that.

Now, $24 billion is a lot of money. I recognize that and I don't think anybody would advocate that we do it for everybody, because there are families with incomes of $50,000 or $75,000 a year—not very many—who pay more than 30 percent of their income for housing. It would roughly double current spending for housing if we did that and if it turned out everybody was eligible and should have that subsidy.

If you cover the difference between 30 percent of income and the fair market rent, in the area where people live, the total additional incremental cost of providing a comprehensive housing allowance program would be approximately $12 billion, at a 50-percent participation rate, so that that's a lot of increase.

But, unless we do something like that, all we will be doing is talking about failed HUD programs, because we will be focusing on the program details and not on what we need to do to deal with the urgent housing needs of the 5 million households with worst-case needs and the other housing needs of approximately 20 million additional households that were identified by the census as having housing problems, although not worst-case problems.

I think it's possible to do that, if we approach the reinvention of HUD along the lines that this discussion seems to be leading in. I'm not saying just the Blueprint, although I think that's a good

place to start, but the Blueprint plus the kinds of considerations that were raised by the earlier witnesses. I think this gives us something to work with to reform housing policy.

The other place where we really ought to be looking are at the housing-related tax expenditures. For every dollar the Federal Government spends in outlays on assisted housing, the Treasury loses $4 because of the cost of housing-related tax expenditures and about $3 of those $4 go to people with incomes that are clearly adequate enough so that they could afford to purchase decent housing without getting those tax benefits.

The largest number are people in the middle of the income range who really need those homeowner deductions or they would have a great deal of difficulty paying for their housing, but there's not where the money goes. The loss to the Treasury goes to people within the top fifth of the income distribution.

The cost of housing-related tax deductions this year is estimated, by OMB, in the budget that was just released for fiscal year 1996, at over $100 billion.

If we assume that half of that is going to people who really don't need those subsidies, and if we were to take half of what goes to those people and put it in a trust fund and use it very much along the lines of the Reinvention Blueprint or legislation which was introduced at the end of the last Congress by Representative Major Owens, we would be able to not only reform HUD but to do something which I think is much more important for the American people. That is to provide the kind of housing policy which will, in fact, achieve at least the decent home, if not the suitable living environment, for every American family.

I think that's probably enough in the way of a summary. I have some various specific suggestions for the kinds of conditions that ought to be imposed if we do go the block grant route.

I would just close by saying that, in this instance, I think what we're talking about are funded mandates because, other than a maintenance of effort requirement, there are effectively no matching requirements in what is proposed and, therefore, it seems to me that the Federal Government ought to be saying, "OK, if we're giving you this money to use for housing, we're going to require that you target it to where the housing needs are." And 67 percent of the renter households with housing problems have incomes below 50 percent of median.

There is a tension between what you do in targeting funds, who you serve, and the kinds of considerations that are raised by a one-for-one replacement, or property disposition or contract renewals.

I think that tension can best be resolved by saying, OK, we'll clear away the kinds of things we've built in over the years which make it very difficult to provide decent housing on a project basis under the current rules, but we will expand housing assistance so that we are, in fact, at the same time meeting our most critical housing needs.

[The prepared statement of Ms. Dolbeare follows:]

PREPARED STATEMENT OF CUSHING N. DOLBEARE, CONSULTANT ON HOUSING AND PUBLIC POLICY, NATIONAL LOW INCOME HOUSING COALITION, WASHINGTON, DC

PERSONAL BACKGROUND

I want to thank the subcommittee for this invitation to testify before you today. I began my career in housing in 1952, as assistant director of the Citizens Planning and Housing Association of Baltimore and then spent 15 years in the Philadelphia area with what is now the Housing Association of Delaware Valley. For most of the last 24 years, I have been active as a consultant on housing and public policy, working for a range of public interest organizations. During this period, I also founded the National Low Income Housing Coalition and its affiliate, the Low Income Housing Information Service. I served as full-time director of these two groups from 1980–84 and from July 1993 through mid-November 1994. I have also served for short periods as executive director of the National Rural Housing Coalition (1974–77) and the National Coalition on the Homeless (1990–91). I am testifying today as an individual, not on behalf of any of the organizations with which I am or have been associated.

Throughout my career, I have viewed housing as the basis of family, neighborhood and community life. Bricks and mortar and financing mechanisms have been secondary concerns—essential to the provision of shelter, but not the reason I cared about it.

Given the proposals before us, it may be of interest to the subcommittee that in 1966 I staffed a committee for the Philadelphia Housing Association which, to the best of my knowledge, developed the first proposal for a comprehensive program of tenant-based assistance. Our proposal was very similar to the current voucher program, except that it would have provided assistance to all eligible renter households. This proposal was picked up by the so-called Kaiser Commission in 1968 and resulted, thanks largely to the efforts of Republican Senator Edward Brooke of Massachusetts, in enactment of the Experimental Housing Allowance Program and, therefore, to the current programs of housing certificates and vouchers. From that day to this, I have been firmly convinced that a key component in addressing our low income housing needs must be a comprehensive program of housing costs assistance to cover the difference between the cost of decent housing and the amount which families can afford to pay. But I have never been convinced that such a program was the only solution to low-income housing needs. Indeed, I have long believed that an attempt to decide between "tenant-based" and "project-based" subsidies is about as useful as it would be for a marathon runner to try to decide which was more important, the left foot or the right. The real issue is not so much which to choose as determining what is needed and designing and carrying out quality programs for each of them.

A BIPARTISAN APPROACH IS IMPORTANT

Let me begin with a plea for bipartisanship and cooperation as this Congress and the Administration approach the reshaping of federal housing assistance. I began my career in housing just three years after the adoption of the landmark Housing Act of 1949 which proclaimed the goal of "a decent home and suitable living environment for every American family." One of the three principal sponsors of that Act was Senator Robert Taft of Ohio, an acknowledged leader of the conservative wing of the Republican party. That act authorized construction of 135,000 new public housing units a year—the figure being an estimated 10% of all new housing construction. But, as has since happened, the authorization was never fully funded.

Instead, it took until 1970 to reach one million occupied, federally subsidized low-income housing units. Thanks in large part to the vigor and commitment of Republican HUD Secretaries George Romney and Carla Hills, as well as that of Democratic Secretary Patricia Harris, the total number of occupied federally subsidized housing units (including units with tenant-based subsidies) had risen to three million by 1980. To complete the picture, HUD's proposed 1996 budget estimates that the Department will have a total of 4.8 million units under payment at the end of this fiscal year. To this total should be added low income units assisted in rural areas through the U.S. Department of Agriculture—not more than 0.5 million units.

But if progress has come from bipartisan efforts and cooperation, many of our current problems are the result of partisan distrust. Democrats did not trust Republicans, and vice versa. Many advocates trusted neither. In part the 60 HUD programs—many of them could be termed micro programs—which are now proposed for consolidation are the result of this distrust, much of it based on unfortunate experience.

THE HUD BLUEPRINT

It is clear that both the Administration and the majority in Congress intend to revise current low income housing programs. The HUD Blueprint, in my view, is a logical place to start. It is now on the table, although the details are still under discussion within the Administration. Its overall triad of consolidated grant programs covers the major areas that low-income housing policy should address: (1) provision of housing costs assistance (framed as certificates for families and individuals); (2) improving and expanding the low- and moderate-income housing supply through project-based subsidies (the Affordable Housing Program); and (3) improvement of low-income neighborhoods (the Community Opportunity Fund).

In my view, the overall approach HUD proposes could produce an excellent set of housing and urban development activities, if it were adequately funded, if it contained substantive targeting and performance requirements which would be monitored and enforced, and if it included adequate transition provisions to prevent the displacement of current tenants without providing them equal or better choices and to prevent the loss of decent, affordable developments from the stock. Unfortunately, the chances of this happening, at least in the short run, appear to be near zero.

Conversely, the likelihood of making significant progress on dealing with critical low-income housing needs—which are more than double the number of currently subsidized households—under current or probable funding constraints are also negligible.

A major reason for much of the opposition to the Blueprint is the fear that funds will simply not be available to accomplish what the Blueprint envisages. For example, there is no assurance that an adequate level of housing costs assistance will be provided so current residents of assisted housing will, in fact, have decent housing choices or that the project improvement in public housing and "mark to market" process in other assisted housing will, in fact, result in affordable rents to very low-income families without involuntary displacement when the shift is made to tenant-based assistance.

HUD IS NOT THE REAL PROBLEM

Housing is the only major social program where the mistakes of the 1950's and 1960's are still visible. Unfortunately, the mistakes we have made in housing—with the exception of a few developments like the demolished Pruitt-Igoe public housing-project in St. Louis—are still with us. The public image of low-income housing is, in fact, so bad that most people assume that any deteriorated or dilapidated rental housing development is such housing. Conversely, a really nice development is assumed to be unsubsidized and not occupied by low-income people. Yet, many public housing or other assisted developments are credits to their neighborhoods and communities.

As a lifelong advocate, I should be the last to minimize the imperfections of federal, state, and local housing programs and their administration. I do not intend to do so. At the same time, I think it is important to recognize that, although HUD has a great many problems, which other Secretaries before this one have attempted to address, HUD is not the problem. Certainly it is not the reason so many low income people are either homeless or have critical unmet housing needs. Instead, the major culprit has been the lack of resources needed to make existing housing programs work and the small scale of those programs, relative to need. And the main source of waste in federal housing spending is not the outlays or budget authority devoted to low income housing, but the even more rapidly rising cost to the Treasury of housing-related tax expenditures, primarily those home owner deductions benefitting upper income people who could afford decent housing without them.

The history of federal housing policies and programs has been marked by good intentions, impossible demands, and frustrated expectations. Some examples:

- High-rise, monster public housing projects—those now so fraught with problems—were primarily the result the Eisenhower Administration's rehearsal to permit the use of urban redevelopment writedowns for site acquisition and clearance, forcing the construction of high density projects to keep costs below the statutory cost-per-room limits.
- Much poor maintenance and deterioration in public housing was the failure of operating subsidies that were supposed to make up for lost income when tenant rents were reduced by the Brooke amendments.
- The intention of the Section 8 new construction program was to replace detailed federal requirements with market discipline, through the fair market rent concept. But unsubsidized multifamily construction was often inadequate to provide market comparables, leading to the high costs we now deplore. (Note, too, that the New

Construction FMR's were substantially above those for the tenant-based program, which are the only FMR's now in use.)

HOUSING PROBLEMS ARE MASSIVE

One notable omission in the HUD Blueprint and the commentaries on it which I have seen is the lack of any discussion of the nature and dimensions of the problems which need to be addressed. But this is where rational policy-making should start.

Two major dimensions of housing needs should be considered: those of families with housing problems and those of the housing stock. The national figures used for the following analysis mask growing diversity in housing needs and housing markets. In some areas, with population declining, there is plenty of housing and vacancy rates are at historic highs. Other areas have significant shortages. The challenge is to frame a program which will be responsive to this diversity of needs and to obtain the money needed to pay for it.

For every very low income household now living in subsidized housing, there is another unsubsidized very low income renter household with a "worst case" housing need. They are either paying more than half their incomes for housing costs, or living in seriously substandard housing, or both. In 1990 the Senate Appropriations Committee asked HUD to report annually on "worst case" housing needs and progress toward meeting them. HUD has done two such reports, using data from the 1989 American Housing Survey (AHS). The first, issued in 1991, covered national data; the second analyzed results from the 44 metropolitan areas surveyed between 1987 and 1990. HUD's 1991 study[1] found 5.9 million renter households and another 3.1 million owner households paying more than half their incomes for housing or living in seriously inadequate units. Of these 9.0 million households, 5.1 million were renters with incomes below 50% of median who were not receiving housing assistance. These "worst case" households constituted half of all unsubsidized very low income renters.[2] However, almost 80% of unassisted renters with the very lowest incomes—below 25% of median—had worst case problems. Worst case households contained 5% of our population and 7% of our children. Just to have enough units to meet current worst case needs would require more than doubling the present number of 4.8 million HUD subsidized low income housing units. Severe cost burden was the only major problem of almost three-quarters of these households.

As the name implies, "worst case" needs are only the most pressing part of the problem. For every very low income household with a worst case need, there are four other households for whom the goal of decent, affordable housing has been unattainable.

The most systematic data available on these needs comes from the 1990 Census, including special tabulations made for jurisdictions preparing Comprehensive Housing Afford ability Strategies (CHAS), a requirement for receiving most HUD housing funds.

These tabulations show that 23% of all renters and 7% of owners have incomes below 30% of median—a shocking proportion of all households in this country. By and large, these incomes are so low that it is impossible for the private sector, unsubsidized, to provide decent units at affordable costs. Indeed, many households have such low incomes that they cannot afford to pay the cost of operating housing once it is constructed or rehabilitated (utilities, taxes, maintenance, and insurance). Moreover, relatively few of these households receive housing subsidies.

Using the special CHAS tabulations, I totaled the state figures to obtain national data on households by tenure and percent of median income, as defined by HUD. HUD uses percent of median family income, adjusted by household size, to determine eligibility for subsidized housing programs.[3]

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[1] U.S. Department of Housing and Urban Development Office of Policy Development and Research, *Priority Housing Problems and "Worst Case" Needs in 1989: A Report to Congress*, June 1991.

[2] Generally, because federal law gives them preferences for housing assistance under the public housing and section 8 certificate and voucher programs, households paying over 50% of income or living in seriously inadequate housing are referred to as having "priority" housing problems. "Worst case" households are unsubsidized, very low income households with priority problems. Homeless people are assumed to have seriously substandard housing problems for purposes of the definition, but are not counted in HUD's estimates of the number of worst case households, which are based on data from the American Housing Survey.

[3] Median incomes vary widely. HUD estimates of incomes for 1993 show a six to one difference between the highest median income ($73,400 in Stanford, CT) and the lowest ($12,200 in Owsley

Continued

The 1990 census counted 92.0 million households: 32.0 million renters and 60.0 million owners. But there were far more very low income renters than owners. In all, 7.3 million renters had incomes below 30% of median, and another 5.1 million had incomes between 31% and 50% of median. In other words, 39% of all renter households fell into the "very low income" category. Only 10.2 million renters had incomes above 95% of median. Compared to renters, owners were well off: while about 4.2 million had extremely low incomes, and another 5.1 million had incomes between 31% and 50% of median, 37.3 million had incomes above 95% of median. (See Table 1.)

TABLE 1.—U.S. HOUSEHOLDS BY TENURE AND INCOME, 1990

[Numbers in millions]

Percent of area median income	Renters		Owners		Total	
	No	Pct	No	Pct	No.	Pct
0–30	7.3	23	4.2	7	11.5	13
31–50	5.1	16	5.1	8	10.2	11
51–80	6.5	20	8.5	14	15.0	16
81–95	2.9	9	4.9	8	7.7	8
Over 95	10.2	32	37.3	62	47.5	52
Total	32.0	100	60.0	100	92.0	100

Source: Compiled from U.S. Bureau of the Census, The Comprehensive Housing Affordability Strategy (CHAS) Database, CD-ROM disk, July 1993.

In 1990, one family in ten paid over half its income for housing costs (rent or mortgage payment, utilities, and, for owners, taxes and insurance). Most, 60%, were renters. Almost two thirds (64%) of these 9.5 million households had incomes below 30% of median. Some 53% of all extremely low income households paid over half of their meager incomes for housing. In contrast, only 6% of the households with severe cost burdens had incomes above 80% of median. (See Table 2.)

TABLE 2.—HOUSEHOLDS PAYING MORE THAN 50% OF INCOME FOR HOUSING COSTS, 1990

[Numbers in millions]

Percent of area median income	Renters		Owners		Total	
	No.	Pct	No	Pct	No.	Pct
0–30	4.2	73	1.9	49	6.1	64
31–50	1.2	21	0.8	22	2.1	22
51–80	0.2	4	0.6	6	0.8	9
81–95	0.0	1	0.2	4	0.2	2
Over 95	0.0	0	0.4	9	0.4	4
Total	5.7	100	3.9	100	9.5	100

Source: Ibid.

- Among renters, 58% of extremely low income households had severe cost burdens, as did 23% of very low income households . But only 4% of low income renters and 1% of moderate income renters had severe cost burdens, and none above that level. Almost no above-moderate income renters had severe cost burdens.
- Owners with incomes above 80% of median were somewhat more likely to have severe cost burdens. Among owners, 45% of extremely low income households had severe cost burdens, as did 17% of very low income households. Only 6% of low income owners, 3% of moderate income owners and 1% of owners with incomes above 95% of median had severe cost burdens.

Housing costs assistance can effectively help most of these households, particularly those who already live in adequate housing or where there is a supply in the community—a characteristic of many housing markets today. However, it should be noted that households with severe cost burdens often suffer from other housing problems. They may live in substandard housing, or be overcrowded, or both. Analysis of raw data from the 1989 American Housing Survey shows that about one fifth

County, KY). Thus, 30% of median can range from $3,660 to $22,020, and 50% of median can range from $6,100 to $36,700.

of all renter households with severe cost burdens either lived in housing with moderate or severe physical problems or were overcrowded, or both.

TABLE 3.—HOUSEHOLD WITH HIGH COST BURDEN, OVERCROWDING, OR INCOMPLETE KITCHENS OR PLUMBING

[Numbers in millions]

Percent of area median	Renters		Owners		Total	
	No.	Pct	No.	Pct	No.	Pct
0–30	5.5	40	3.0	27	8.6	32
31–50	3.8	27	2.3	17	6.1	23
51–80	2.9	21	2.6	20	5.6	20
81–95	0.7	5	1.2	9	1.9	7
Over 95	1.0	7	4.1	31	5.1	17
Total	14.0	100	13.2	100	27.2	100

Source. Ibid.

The census reports only housing costs as a percent of income, overcrowding, and lack of complete kitchen or plumbing facilities. The Census Bureau CHAS tabulations provide an unduplicated count of households in 1990 with these problems. Households with severe cost burdens comprised 41% of all households with these housing problems. More than one in four households—27.2 million in all—reported these problems to the census. Most, 51%, were renters, even though renters comprised only 35% of all households. Almost one-third (32%) were extremely low income. Almost three quarters (74%) of all extremely low income households reported one or more significant problems, as did 60% of very low income households, 37% of low income households, 24% of moderate income households and 11% of above-moderate income households.

• Among renters, 76% of extremely low income and 75% of very low income households reported cost burden or overcrowding problems, as did 45% of low income households. The incidence of moderate cost burdens or overcrowding was strikingly higher for moderate and above-moderate income renters than the incidence of severe cost burdens. In all, 24% of moderate income renters and 10% of above-moderate income renters reported cost burdens, overcrowding, or both.

• Among owners, 71% of extremely low income households had cost burdens or were overcrowded, as were 45% of very low income and 31% of low income owners. Some 25% of moderate income owners and 11% of owners with incomes above 95% of median also had cost burdens or were overcrowded.

Households with severe housing cost burdens—paying more than half their incomes—are overwhelmingly at the bottom of the income scale. Overcrowding, moderate cost burdens (30% to 50% of income), and lack of kitchen or plumbing facilities are not as closely related to low income. Minority households also tend to be disproportionately concentrated among extremely low and very low income households and are far less likely to be owners.

A SUBSTANTIAL PORTION OF THE PRIVATE, UNSUBSIDIZED HOUSING STOCK IS ECONOMICALLY DISTRESSED

Unfortunately, the 1990 Census throws little light either on the physical quality of housing units or on their economic viability, since, other than lack of complete kitchens or plumbing, it does not attempt to measure housing quality. In 1993, I developed a rough measure of economic distress—the inability to afford major repairs or improvements without subsidy—for the Alliance to End Childhood Lead Poisoning. I believe this is a good proxy for housing that either now needs some rehabilitation or improvement or will be likely to in the near future.

Economically distressed units were defined as all owner-occupied units where the household income was less than $20,000 and all renter-occupied units where household income was below $20,000, housing costs are less than $500, and occupants paid more than 30% of their incomes for housing costs. Using 1991 American Housing Survey (AHS) data, I estimated that 18 million of the 72 million units built before 1978 were economically distressed. A background paper on economically distressed housing prepared for the HUD Task Force on Lead-Based Paint Poisoning found this a conservative definition. More significantly, this paper found that 63% of these units probably could not meet the Housing Quality Standards used by HUD in its rental assistance programs. This is a striking comparison to the AHS cat-

egories of "moderately" or "severely inadequate," since only 13% of the distressed units were so classified.

MOST LOW INCOME FAMILIES DO NOT LIVE IN SUBSIDIZED HOUSING

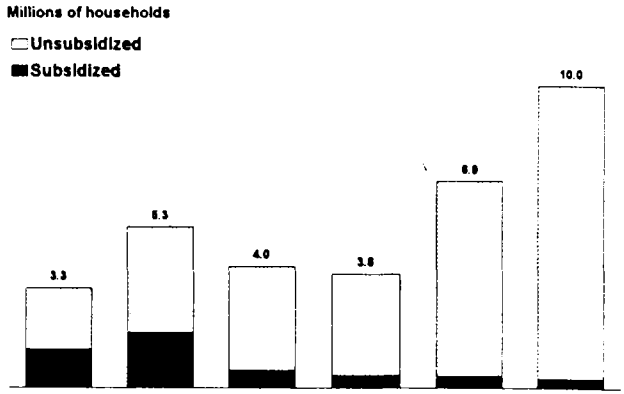
There are now approximately five million households living in federally subsidized low income housing. Most of them live in housing subsidized by HUD programs, but about $500,000 (check number) live in housing subsidized by the rural programs of the Farmers Home Administration. These units are the total amount of housing achieved by federal low income housing programs over more than half a century, beginning with the emergency and public housing programs launched in the depression of the 1930's.

The vast majority of low income renters do not live in federally subsidized housing. In 1991, AHS data showed that only 38% of the 3.3 million renter households with incomes under $5,000 (10% of all renter households) lived in subsidized housing. Only 35% of the 5.3 million renter households with incomes between $5,000 and $10,000 lived in subsidized housing. Yet these households, at 30% of income for housing costs, could afford only $125–$250 monthly for housing costs, including utilities. Moreover, subsidized housing units outnumbered those without subsidies in every cost range above $125 monthly. (See Graphs 3 and 4.) Since, low income owners are not eligible for most federal housing assistance, they receive even less help.

Budget authority for federal low income housing programs peaked in 1978, at $69.5 billion in inflation-adjusted 1995 dollars. This was 6.4% of all federal budget authority. Moreover, 80% of this amount was spent for providing additional subsidized units or households. In that year, inflation-adjusted outlays for low income housing assistance cost $7.9 billion. Housing-related tax expenditures, primarily homeowner deductions, cost $34.4 billion. In contrast, the FY 1996 budget calls for only $21.1 billion in low income housing budget authority. This is projected at 1.4% of total budget authority. Worse, only about 30% of this amount will be used for expanding the number of household receiving assistance. Outlays for low income housing assistance are expected to cost $26.4 billion and housing-related tax expenditures are estimated at $102.0 billion. (See graphs.) The 1978 budget funded 401,800 units through HUD and Farmers Home programs (down from the 1976 high of 541,500 units), the 1996 budget is expected to fund housing assistance for far fewer additional households.

Overall federal housing expenditures (tax expenditures and outlays) go predominantly to benefit households in the top fifth of the income distribution. An analysis of data for 1994 shows that the top fifth got an estimated 61% of all housing benefits, compared to only 18% for the bottom fifth. Only 19% of the households in the bottom fifth—about 3.7 million in all—got federal housing assistance, but 87% of the households in the top fifth got homeowner deductions. Table 4 summarizes the data on the inequity of our housing subsidy system. The top panel gives the distribution of housing outlays and major tax expenditure categories, and the bottom panel estimates the number of households receiving assistance.

Renter Households by Income and Subsidy, 1991

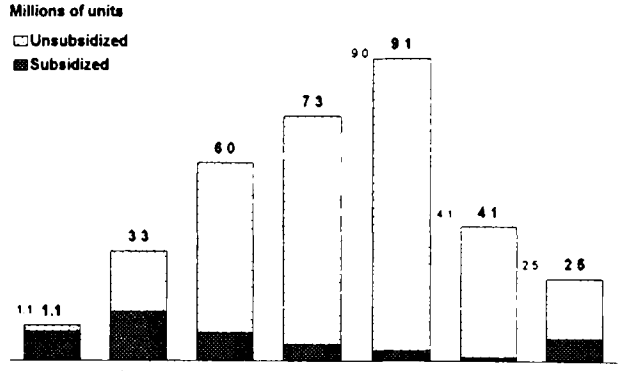


	Under $5,000	$5,000-$10,000	$10,000-$15,000	$15,000-$20,000	$20,000-$30,000	$30,000 or more
Unsubsidized	2.1	3.5	3.4	3.4	6.5	9.7
Subsidized	1.3	1.9	0.6	0.4	0.4	0.3

Source: Raw data from 1991 AHS downloaded by Harvard Joint Center for Housing Studies

Graph 3

Renter Households, by Monthly Cost and Subsidy, 1991



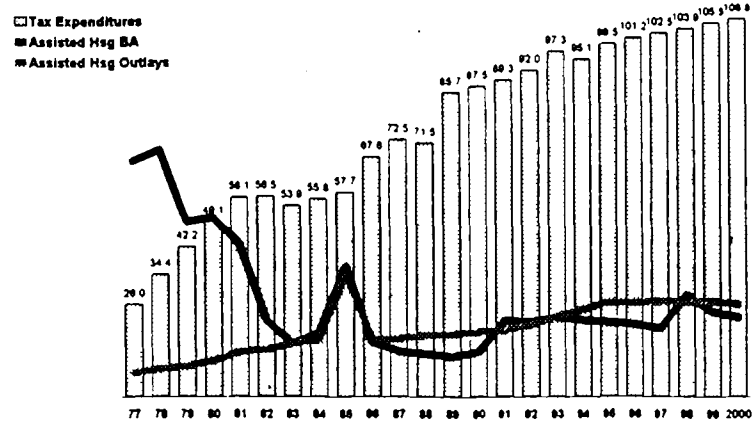
	Under $125	$125-$249	$250-$374	$375-$499	$500-$749	$750 or more	No cash cost
Unsubsidized	0.2	1.8	5.1	6.9	8.7	4.0	1.9
Subsidized	0.9	1.5	0.8	0.5	0.3	0.1	0.7

Monthly housing cost

Source: Raw data from 1991 AHS downloaded by Harvard Joint Center for Housing Studies

Graph 4

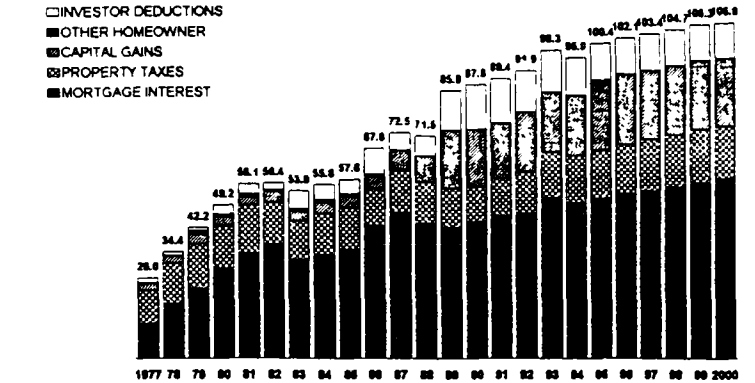
Federal Spending for Housing, 1977-2000
In Billions of Constant 1995 Dollars



	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	2000
Assisted Hsg BA	66.4	68.5	48.1	50.3	42.8	21.5	14.9	16.1	34.6	15.6	12.8	12.1	11.4	12.8	21.7	21.1	22.2	21.7	21.9	20.5	19.3	20.6	23.6	22.4
Assisted Hsg Outlays	6.9	7.8	8.6	10.2	12.7	13.5	14.9	16.1	34.6	16.6	16.4	17.4	17.8	18.1	18.8	20.3	22.6	24.6	26.7	26.4	27.0	26.6	27.0	25.9

Note: 1980 reflects public housing refinancing, adding no units

FEDERAL TAX EXPENDITURES FOR HOUSING, 1977-2000
IN BILLIONS OF CONSTANT 1995 DOLLARS



	1977	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	2000
INVESTOR DEDUCTIONS	1.5	1.2	1.0	2.8	3.2	2.1	0.8	4.0	4.7	0.4	5.4	6.3	12.4	13.0	13.8	12.9	13.1	11.8	11.4	11.4	11.4	11.3	11.2	11.8
OTHER HOMEOWNER	0.3	0.0	1.4	0.0	1.0	0.7	0.0	0.0	0.0	0.7	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL GAINS	2.3	2.8	3.0	2.0	2.7	3.5	3.0	3.6	3.7	4.1	0.4	0.6	10.8	10.6	17.8	18.1	18.8	18.8	22.6	22.1	21.8	21.8	21.6	21.4
PROPERTY TAXES	10.8	12.8	14.2	13.8	15.3	13.2	12.3	13.0	13.2	11.9	13.8	13.1	12.4	11.1	12.1	13.3	14.8	15.3	16.7	18.1	16.4	18.8	17.2	18.7
MORTGAGE INTEREST	11.3	17.8	22.8	29.0	33.9	36.9	31.8	33.5	36.2	42.5	46.8	43.5	42.2	44.0	46.7	46.6	51.5	48.0	51.3	52.5	53.8	56.0	56.4	57.8

TABLE 4.—FEDERAL HOUSING EXPENDITURES AND BENEFITS, 1994

	Income quintile					
	Lowest	Second	Third	Fourth	Top	All
Estimated federal housing expenditure, in millions of dollars						
Estimated quintile income limit	$13,100	$25,500	$38,200	$60,600	NA	NA
Mortgage interest	52	380	2,117	9,753	39,533	51,835
Property taxes	15	96	541	2,397	10,816	13,865
Capital gains	20	133	747	3,375	14,421	18,695
Investor	13	90	503	2,274	9,719	12,600
Tax expenditures	100	699	3,909	17,799	74,488	96,995
Low income housing outlays	20,786	2,416	504	120	14	23,840
Total housing costs	20,886	3,115	4.413	17,919	74,502	120,835
Estimated households receiving housing benefits, in thousands						
Tax benefits	124	707	2,992	8,471	16,127	28,422
Housing assistance	3,567	829	346	165	47	4,954
Total	3,690	1,536	3,338	8,636	16,175	32,771
Percent of quintile	20	8	18	46	87	
Average amount per household receiving subsidy	$5,660	$2,027	$1,322	$2,075	$4,606	$3,620
Average subsidy per household in Quintile	1,121	167	237	962	3,999	1,297

In short, as low income housing needs have grown, our performance has withered—but tax expenditures, which primarily benefit upper income people, have continued to grow without restraint. It is imperative that any overall reform of federal housing assistance consider this gross pattern of inequity.

In the closing hours of the 103rd Congress, Representative Major Owens introduced a bill to do just that. On behalf of the National Low Income Housing Coalition, I worked closely with his office in developing the proposal, as well as with a Coalition committee to further refine its elements. H.R. 5275, the Federal Housing Trust Fund Act of 1994, would have created the Trust Fund by reducing up to half of the benefits of homeowner deductions for owners with incomes above $75,000. Trust funds would be distributed, as an entitlement, to local and state governments and to Indian tribes. Two-thirds of the funds, allocated according to a formula reflecting affordability of the existing stock, would go for housing costs assistance (for both renters and owners). The remaining third would go for improving and expanding the supply of affordable housing, subject to permanent use restrictions.

In this respect, the trust fund proposal is similar to the framework of HUD's rental assistance and housing Afford ability proposals. But there are five key features that go well beyond anything currently proposed by HUD.

- Strict targeting requirements so that the proportion of households and units assisted reflects the proportion, by percent of median income, of households with housing problems in the jurisdiction.
- Meaningful planning requirements to assure that funds are wisely spent—not just throwing money at the problems.
- Strong citizen participation requirements, to make sure that those affected by the program have real input into what is done and have access to the information needed to do so.
- Administration at the local and state level by a representative board, a majority of whom shall have been nominated by individuals and entities other than a governmental jurisdiction, including currently or formerly homeless people, housing advocates, and representatives of entities providing housing or housing assistance and services to low income and homeless people.
- Effective citizen monitoring of how the funds are spent, with a set aside of trust funds provided in each jurisdiction for such monitoring. These monitoring activities would be in addition to the relatively standard provisions, similar to those in the HOME and CDBG programs, for monitoring and enforcement by HUD.

I urge the committee to recommend that these components be included in any restructuring of HUD's programs. If block grants are to be successful, they should include (1) strong federal requirements, particularly targeting requirements, to assure

that the purposes of the program are achieved, (2) state and local flexibility, and (3) effective citizen participation and monitoring. Beyond that, until housing costs assistance is broadly available to those who critically need it, attention must be paid to linking this assistance to projects owned by non-for-profit entities in order to effectively serve extremely low income households.

FOUNDATION FOR A RESPONSIBLE HOUSING AND HUMAN NEEDS AGENDA

Finally, this Committee should carefully consider an important set of ten principles developed and endorsed by a broad coalition of public interest organizations on the essential points to be included in any reshaping of housing programs. (The full statement is attached to this testimony.)

1. A safe, affordable home in a suitable living environment should be the right of all Americans and has been our federal housing goal for nearly half a century. Fiscal and tax policies affecting low income housing and community development programs should reflect this commitment.
2. The federal government must provide strong leadership in setting and enforcing guidelines for state and local government participation in housing and community development programs.
3. Housing Assistance should be targeted to reach low income recipients and their communities first.
4. The affirmative furthering of fair housing must be a cornerstone of federal housing policy.
5. Plans for funding and allocating housing and community development dollars must have strong and viable citizen participation requirements and performance accountability measures.
6. The existing stock of public housing and federally assisted housing must remain permanently affordable and available to shelter low and moderate income families and individuals.
7. The historic federal commitment to subsidies for the construction and rehabilitation of permanently affordable housing must be maintained. Income assistance in the form of vouchers and certificates will never be the sole solution in every market and region.
8. The non-profit housing and community development sector should be expanded and strengthened.
9. The special needs of vulnerable populations and the emergency needs of persons in crisis must be met.
10. Housing assistance must be closely coordinated with the provision of other services which may be needed to create opportunities for self sufficiency, such as education, job training, day care, counseling, mental health services, and treatment for dependency on alcohol and other drugs.

FOUNDATION FOR A RESPONSIBLE HOUSING AND HUMAN NEEDS AGENDA

We the undersigned call upon the Congress and the Administration to honor America's housing goals set forth in the Housing Act of 1949 and reaffirmed in the National Affordable Housing Act of 1990 for safe, decent and affordable housing for all Americans that need it. We ask that the housing partnership which has been established between the federal government, state and local governments and the private sector be strengthened and reaffirmed We set forth the following principles to guide the development of a responsible housing and human needs agenda and express our opposition to any program restructuring, fiscal or tax initiatives which would violate the basic contract established with low income Americans in the development of housing policy over the last 50 years.

1. A safe, affordable home in a suitable living environment should be the right of all Americans and has been our federal housing goal for nearly half a century. Fiscal and tax policies affecting low income housing and community development programs should reelect this commitment.

Let us not abandon this goal—in 1990 one in ten families paid over half of its income for housing costs. The problem is most acute for the lowest income families—nearly two out of three with extremely low incomes pay more than 50% of their income toward rent. For these families, the cost of rental housing in the private market is still out of reach and can only be obtained by diverting scarce income from other basic human needs including food, clothing and health care.

For every unit of occupied subsidized housing that now exists, there is a very low income household with critical housing needs eligible for assistance that receives nothing. There are more than one million families on waiting lists for public housing

and rental assistance around the country. Everyday, more than one half of a million homeless individuals and families live on the street or pass through emergency shelters with no place to call home. Budget guidelines must be recast to recognize and address these unmet needs.

2. *The federal government must provide strong leadership in setting and enforcing guidelines for state and local government participation in housing and community development programs.*

The need for a strong federal role in the enforcement of fair housing, need based preferences, housing quality and monitoring of low income benefit is as great as ever. Vulnerable communities need close federal oversight to support their fight for social justice and self-sufficiency.

3. *Housing Assistance should be targeted to reach low income recipients and their communities first.*

With more than 70 million Americans facing at least one type of housing problem, it is clear that the issue of decent housing cuts across income level and housing type. However, limited resources must first be directed to the lowest income families and the most distressed communities.

4. *The affirmative furthering of fair housing must be a cornerstone of federal housing policy.*

America remains a nation of hyper segregated communities. Among homeless persons and poor renter household, minorities are disproportionately represented. Any comprehensive policy approach must take aim at racial discrimination in housing markets and the myriad of resulting social ills.

5. *Plans for funding and allocating housing and community development dollars must have strong and viable citizen participation requirements and performance accountability measures.*

Citizen participation, especially by low income residents and other vulnerable populations, is fundamental to effectively allocate scarce public resources. Strong performance measures which hold state and local governments accountable to the goals they set in concert with citizens is equally important.

6. *The existing stock of public housing and federally assisted housing must remain permanently affordable and available to shelter low and moderate income families and individuals.*

The federal government has invested billions of tax dollars to create public and assisted housing for the poor. The vast majority of these units offer safe, decent, affordable housing and must not be abandoned. Private investors should be treated fairly, but not rewarded more than investors in comparable market rate developments and should not be allowed to displace tenants for private profit after receiving federal subsidy.

7. *The historic federal commitment to subsidies for the construction and rehabilitation of permanently affordable housing must be maintained Income assistance in the form of vouchers and certificates will never be the sole solution in every market and region.*

Over the years, federal housing support has employed a variety of strategies including direct income assistance, interest subsidies, insurance guarantees, and long term operating subsidies tied to specific projects. This diversity of approaches and commitment to long term Afford ability must be continued. Time limited or portable subsidies are not an adequate substitute for direct production. Only the federal government commands the level of resources and authority adequate to meet the nation's affordable housing mission. Without the federal partner, the private sector, non-profits and local government will be severely hampered in their efforts to meet needs.

8. *The non-profit housing and community development sector should be expanded and strengthened*

Community based nonprofit bring a unique commitment and special insights to the long term needs of the most difficult to serve communities. These organizations are one of the keys to empowerment of low income communities. Their existing capacity and expertise must be enhanced through direct federal funding for technical assistance, operating support and project funding.

9. The special needs of vulnerable populations and the emergency needs of persons in crisis must be met.

The special needs of vulnerable populations, including homeless people, children, persons with disabilities, persons with AIDS, the elderly, and those facing intransigent discrimination and barriers to full employment must be addressed. Individual differences in the capacity of people to work and move through a continuum of care system must be factored into any comprehensive policy response to housing assistance for vulnerable populations.

10. Housing assistance must be closely coordinated with the provision of other services which may be needed to create opportunities for self sufficiency, such as education, job training, day care, counseling, mental health services, and treatment for dependency on alcohol and other drugs.

For many very low income families, housing is only one of the impediments which they face in their efforts to escape from the cycle of poverty and despair. Services which can help in enabling these impoverished families to escape poverty must be adequately funded and carefully coordinated with the provision of housing assistance.

NATIONAL ENDORSERS

Association of Community Organizations for Reform Now; AIDS National Interfaith Network; Alliance to End Childhood Lead Poisoning; American Association of Homes and Services for the Aging; American Friends Service Committee; Catholic Charities, USA; Center for Community Change; Child Welfare League of America; Church Women United; Commission on Social Action of Reform Judaism; Community Information Exchange; Council for Rural Housing and Development; Development Training Institute; Housing Opportunities for Women; Interfaith Impact for Justice and Peace; Jesuit Conference, USA, Office of Social Ministries; McAuley Institute; National Alliance to End Homelessness; National Coalition for the Homeless; National Council of La Raza; National Council of Senior Citizens; National Council on the Aging; National Housing and Rehabilitation Association; National Law Center on Homelessness and Poverty; National Leased Housing Association; National Low Income Housing Coalition; National Neighborhood Coalition; National Rural Housing Coalition; NETWORK: A National Catholic Social Justice Lobby; Seedco; Simon Publications; United Church of Christ; United Methodist Church, General Board of Church and Society; United Way of America; Wider Opportunities for Women; Women and Poverty Project; Women Work! National Network for Women's Employment.

STATE AND LOCAL ENDORSERS

Albuquerque Alliance to End Homelessness; Affordable Housing Alliance (Hawaii); Cabell-Huntington Coalition for the Homeless; Coalition on Homelessness and Housing in Ohio; Georgia Coalition to End Homelessness; Idaho Housing Coalition; Maine Coalition for the Homeless; Nashville Coalition for the Homeless; National Health Care for the Homeless Council; New Hampshire Coalition for the Homeless; New Mexico Coalition to End Homelessness; New York State Coalition for the Homeless; Rhode Island Coalition for the Homeless; Task Force for the Homeless (Atlanta); Wyoming Coalition for the Homeless.

Mr. SHAYS. With just two members here, we have the opportunity to have more of an exchange of ideas, rather than just a back and forth question and answer. I will tell you what I was hearing from each of you.

Mr. Lane, I sense that you were really giving us a warning that we could do a lot of reform, but there are some basic, inherent problems with what we do. You warn that we'll end up with the same kind of problems, particularly as related to FHA, multi-family; and you're trying to alert us to that fact. In order to make the system work, you have to do a lot of manipulation and you need to involve a lot of people. What I have noticed, since I've been involved in this in the last few years, is what when we had the kind of up-front money, the consultants take their money, the owners of the property make their money up front and then, they could almost walk away, and they've done OK.

I sense, Mr. Lane, from hearing your comments, that you want flexibility, as someone who has had to kind of work with this morass, both within your own agency and then within HUD. I sense that you're concerned about what the result has been of what we've done, which, as you know, gets us in a whole other area.

I know you all mentioned other things, but these are the things that struck me most from what Mr. Lane has said.

Ms. Dolbeare, you're making a very valid point in pointing out that we do subsidize those who make money and those of us who have homes and are able to deduct our interest payments in our income tax, in essence, get a subsidy from the Federal Government. So I think you make a very valid point for all of us, in that we're all being subsidized, ironically.

There are, two areas in the comments you make that I'm wrestling with. The first is that I think, whatever we subsidize, we get more of—I take as a general rule.

I think that people who are very poor are geniuses in terms of how do they survive. They find 100 different ways to work within the system to survive, and they manipulate the system in 100 different ways to survive.

I would ultimately like to see, in my own mind, a system that is fairly simple, that does allow for choice and flexibility. But I think of all the incredibly corrupt public housing authorities. Bridgeport, CT, where I represent, was taken over by the Federal Government, a consultant took it over, and it now is run by an extraordinarily capable executive director, and we're able to do things.

I thought, "Where did he get all this money?" You get a lot of money coming in. I'm sorry to go on here, but I'm opening it up for comment afterwards.

What I'm struck by is, that with all the money we put in public housing, everyone could live in luxurious conditions, if we spent the money well.

I mean, we've spent so much money per unit, per tenant. I'm just fascinated with the whole concept of what an individual tenant does with a voucher versus the old project-based subsidy, trying to build neighborhoods, as you've mentioned.

I'm sorry to kind of go on, but that's what I'm hearing. I guess my first question is, am I hearing you correctly or am I kind of just hearing a little, teeny bit of what you're telling me? Mr. Weicher?

Mr. WEICHER. I think you're hearing the main point, Mr. Chairman. I think that the sooner you can simplify the way in which HUD tries to provide housing assistance to low-income people, the better off they will be and the more effective HUD would be.

I think that, after 60 years of experience with conventional housing, despite the best efforts of Vince Lane and people like Vince Lane, and after 30 years of experience with privately owned subsidized projects, where the original idea was that when we get the private sector in, it would be so much better than having the government do it and it turns out to be no better and often worse—after all that, I think it's time to get out of that business and to try to provide housing for poor people in the same way that the rest of us provide it for ourselves—taking our money and looking for a place to live that we can afford and we, as the government,

you as the government, helping them afford decent housing. The housing is there on the private market.

Mr. SHAYS. I'm going to ask you a question in a second, but was I hearing you properly, Mr. Lane?

Mr. LANE. Yes, you were. What I'm saying in response to John is, you know, I think we have been a disaster, our housing policy in this country. But I don't want to throw the baby out with the bathwater. I'd rather see us encourage private individuals to provide housing amongst working people.

You might devise a program that you limit the amount of subsidized units that would exist in any private, conventionally financed development. That means the public housing tenants are going to get the same things that you and I would get in a housing situation.

The 80/20 program, which was a subsidized program, at least shows that the two populations can co-exist. The housing that exists in Montgomery County shows that poor people can live with people of higher incomes.

What we have to do is to now get the risk in the conventional sense, with developers and owners of housing who will provide that housing, maybe on a lease basis to public housing authorities, or directly from the government, or block grants from the city—wherever. But we've got to integrate poor people in with everybody else.

Mr. SHAYS. Ms. Dolbeare, I know that one of the missions of HUD, if not the primary mission, was to provide a decent home for every American family.

But they say if you give a bird food, it won't fly. It will forget to fly. It won't fly. I'm struck by the fact that the concept that if you told every American you were going to give them a decent home, there's got to be some incentive for them to earn it, and that's why I think our policy has been a disaster.

I agree with the conceptual thought that we're going to have every American have a decent home. But I still think they have to earn it.

Ms. DOLBEARE. I don't really disagree with that. In fact, on the one hand, I think it's terribly important, because a lot of the people who have the housing affordability problem—23 percent of all renter households have incomes below 30 percent of median.

A lot of them are elderly, as Judy England-Joseph said, a lot of them are children or they're single parents who don't have access either to child care or to employment that would raise their incomes particularly above that level.

I think that the important thing is to provide opportunities for people. A lot of the organizations that I've worked with most closely over my career have been community based, neighborhood organizations where people are trying in every way they can to improve their neighborhoods, and they're looking for various kinds of assistance.

I think that you find if you—I don't think that you'll find that there are a lot of free riders. I think the contrast between that and—you know, we don't tell people that they need to earn their mortgage interest deduction or even that they need it. I recognize you conceded the validity of that concern. But I think it's——

Mr. SHAYS. I don't concede the last point. The difference is the homeowner was earning something and the homeowner was paying something into the system. I don't see the connection.

Ms. DOLBEARE. Yes, but you get the mortgage interest deduction as an entitlement simply by buying a house and taking out a mortgage. If I happen to have enough money to buy my house and pay the whole cost——

Mr. SHAYS. What you do, though—forgive me for interrupting your comment—what you do do is, you stretch yourself to the edge and buy a better home because of that interest. You'd still buy a home. You just are able to get a better home because of the interest payment.

Ms. DOLBEARE. I think that's true. I think a lot of people do that. I think there are also people who could buy their homes outright, who mortgage their homes because of the benefit of the mortgage interest deduction and invest their money in the stock market or whatever, because that's a sensible way to handle your money. It's not a very sensible thing to do from the point of view of investing to pay the full price of your home, at a certain income level.

I think that it's a mixture. But I don't disagree with your major point that something for nothing is not necessarily wise social policy, but I don't really think that the people who are receiving housing assistance, by and large, are in that category.

A great many people are using those vouchers to move to better neighborhoods. I've talked to people who have been able to move to places near locations of employment—Vince can talk about some of the Chicago experience that has been brought about—not because you told that family that if they got the voucher they would have to go get a job but because that's what those families want to do.

I would see it more in the framework of providing people with the wherewithal so that they could get decent housing and could move to decent neighborhoods.

I guess the other side of it that I think we shouldn't gloss over is the importance of some place-based assistance—which is what I see the affordable housing program and the community development program providing—of making some of the neighborhoods that are on the edge and about to go downhill or have gone downhill but could be improved, that that place-based assistance is very important.

I'm a member of the board of the Enterprise Foundation, and they're working in the Sandtown, Winchester area. They built 20 new houses for sale in that area, and that has made the most enormous difference to that whole community in just having people think, "Gosh, you know, maybe something really is going to happen here and maybe we should stay." I think that's an important dimension that we can't overlook.

Mr. SHAYS. I want to give my colleague, Mr. Towns, an opportunity to ask some questions. I'm struck by two observations.

One, we're finding the whole issue of whether you go into an impacted and a non-impacted area in terms of new public housing. Public housing has actually upgraded certain neighborhoods in Bridgeport. They've put a plaque on the side of the building and they have a flag. They identify what's public housing. It's better

maintained than the surrounding units and actually has upgraded neighborhoods, which is kind of interesting to me.

Mr. Weicher, Connie Morella wanted this question asked, and I do, as well. You make an interesting point that, at one time, public housing was cheaper than vouchers. Then you make the point that, because of the interest rate costs and carrying costs and so on, that the vouchers may be more economical. You then say public housing project developments could be zeroed out in this year's budget.

What are you saying? I don't have a good sense of what you're suggesting.

Mr. WEICHER. There are several bases of comparison, Mr. Chairman.

First of all, the basic comparison I was making in the testimony was between operating subsidies and modernization on the one hand, for projects that are already built, and the voucher or the certificate on the other, ignoring the capital costs, ignoring the sunk costs that the government has incurred and paid at the time the projects were built, or is still paying in bonds, because we're talking, in the Reinvention Blueprint context, about converting from public housing that now stands to vouchers and certificates.

Mr. SHAYS. Right.

Mr. WEICHER. And, on those terms, the voucher and certificate program costs about the same as public housing that has already been built. There's about a $7,000 cost for the voucher and, on the public housing operating subsidies and modernization, it's about $5,000 and then the tenant's rent contribution is about $2,000 based on the tenant's typical income of about $6,500 and assuming 30 percent of that.

So, in those terms, you've built it, you've spent all that money, they cost about the same.

Mr. SHAYS. Right.

Mr. WEICHER. Now, if you are talking about moving forward, building more public housing, it's $85,000 to build a typical unit, according to the budget.

Mr. SHAYS. You're talking about new public housing.

Mr. WEICHER. New public housing.

Mr. SHAYS. You're not talking about moving people out of public housing. You're just saying, from this point on, just rely more on vouchers?

Mr. WEICHER. That's right. Yes. From this point on, I would adopt the Blueprint's suggestion and voucher out the public housing and the privately owned projects as quickly as possible.

Mr. SHAYS. The term "voucher out" means just from this point on?

Mr. WEICHER. That's right. Voucher out stock that we now have and then zero out the money for building new public housing at $85,000 a unit.

Mr. SHAYS. You'd still keep what exists in the market today?

Mr. WEICHER. As long as people are willing to live in it. I would let the market tell Vince and other public housing officials that the housing they're providing is decent housing that people are prepared to live in.

Ms. DOLBEARE. But you wouldn't give them operating subsidies or mod., is that right?

Mr. WEICHER. The operating subsidies and the mod., as in the case of the Blueprint, would be converted to vouchers.

Ms. DOLBEARE. Right.

Mr. WEICHER. And the tenants would decide whether the housing was worth the money and the PHA would have the money, as it would have now, for the housing the people were prepared to live in.

Mr. SHAYS. Before I give my colleague as much time as he would like, I'm unclear. You would not provide the operating subsidy for the existing public housing?

Mr. WEICHER. The proposal in the Blueprint, which I support, takes the money which is now operating subsidies and modernization——

Mr. SHAYS. But it allows them to take the voucher and spend it in a public housing facility, as well.

Mr. WEICHER. Or anywhere else.

Mr. SHAYS. Fine. OK.

Mr. WEICHER. Certainly, if they wish to. And, as I said in the testimony, I think most people living in public housing—certainly most elderly and probably most other people—would choose to remain where they are. But some projects are perfectly awful and some housing authorities, as various people have said and as you have said, have done a very poor job of providing housing for most of their residents.

Mr. SHAYS. Do all three of you feel comfortable with the concept?

Mr. LANE. No. And Congressman, the problem with that logic is, when you get down to reality, 30 percent of the certificates that we now give to eligible tenants in Chicago come back to us, because they can't find anywhere to use that certificate.

Mr. SHAYS. That's your point.

Mr. LANE. The other fact is, people are creatures of habit. And, yes, we find a few people who are willing to move to other neighborhoods or out in the suburbs, but people basically, unless there's a reason to do so and they get some support, they stay right where they are.

So we'll be using those dollars from those certificates to maintain units in Robert Taylor, and Robert Taylor ought to be torn down.

Mr. SHAYS. Mr. Towns, you have been very patient, and you have the floor as long as you want it.

Mr. TOWNS. Thank you very much, Mr. Chairman. I think the discussion has been very helpful.

Let me begin, Mr. Weicher—are you saying that this is not the way to go to reform HUD?

Mr. WEICHER. I'm saying that, with respect to the assisted housing that we now have built, it is the way to go to reform HUD, only I would do it faster.

That point we were just talking about with respect to public housing and the privately owned projects that have now been built, I would, as I was saying, voucher them out and let the tenants take subsidies and either live in the units they're now living in or move, if they wish to. I think that's fine.

I think that the reforms for FHA are just backward. The problems in FHA come in the multi-family area, and the Blueprint proposes to leave multi-family alone. The part of FHA that works is

single-family. The administration proposes to get out of the process of insuring single-family mortgages. I think that's dead wrong, absolutely backward.

I think the home block grant should be really eliminated. As it stands now, it duplicates what CDBG does, but what the administration wants to do with it, and says it wants to do in the Blueprint, is to encourage the use of home funds in combination with FHA insurance to build more projects.

That's exactly the fundamental mechanism—whatever the details—that's the fundamental mechanism which has given us the problems in section 8, and section 236 before that, and section 221(D)(3)BMIR before that.

So I would say that, in the basic areas of HUD, I would give the Blueprint one cheer out of three.

Mr. TOWNS. Let me ask this, then. As you eliminate the multi-family insurance program, actually, what, if anything, should be put in its place? What should we put in place?

Mr. WEICHER. I would not have the government in the business of insuring multi-family mortgages, either in the present form of the government alone providing 100 percent insurance or in any kind of joint insurance scheme as we have had and that the subcommittee has dealt with, any kind of joint insurance scheme with anyone else where the Federal guarantee is leveraged somehow with somebody else's money and the premium tends to go somewhere else.

Very little multi-family housing is now being built with FHA insurance—9,000 units in 1993 out of 127,000 multi-family units built nationally. Out of all multi-family mortgage originations in 1993—and this is the last data we have—$1.6 billion were FHA insured out of a total of $30 billion. That is not a lot of impact in the multi-family market for the incredible mess that has been that component of HUD, decade after decade, for more than 20 years.

Mr. TOWNS. I'm thinking about the human cost. No. 1 is the voucher program, which we talked about earlier, and you heard in terms of the comment coming from Mr. Lane over the fact that you really, in many instances, give them a voucher and, you know, they go out and they come back and there's no housing for them. Of course, in some areas it's worse than others.

In the area that I come from, there's a very serious problem for housing, in terms of New York City. What do you do in a case like that?

Mr. WEICHER. I think the voucher in general—there are two ways of thinking about it. One is the idea of the voucher in general and the other is the idea of vouchering out public housing.

We know from studies that we have done of the voucher and certificate program—studies that were done by my predecessors at HUD and that were done when I was there and, I believe, are continuing, we know that most people who get vouchers or certificates are able, in fact, to use them to find decent private housing that they want to rent and that the landlord wants to rent to them.

We also you know that, year by year, the proportion of families who get vouchers and certificates and who are able to use them successfully is rising. Some families aren't successful. Most families are.

We also know that there is enough housing in the private market now so that, if everyone living in a public housing unit chose to move with a voucher—and I think not very many will, for reasons that Vince said and because most housing is decent but if everyone wanted to move, they could move. They could find a private housing unit in decent condition, renting for less than the fair market rent. They could take the voucher and certificate and they could move to a private housing unit. Not many will.

Your area has one of the few good, large public housing authorities in the United States and probably relatively few would move, in the New York metropolitan area. But the program could work. The units are actually there.

Mr. TOWNS. When you say "most"—and I don't want to become confrontational. That's not the purpose. I really just want to get as much material as we can to try to put programs in place that really work.

When you say "most," and then when you look at areas like New York and, of course, Mr. Lane just described the Chicago area, where you do not have housing stock for them, then you have to find another way to deal with the problem. Even though you're saying "most," and I understand when you look at the United States as a whole, then, I will not argue the point of your "most."

However, I would like to get a clear indication of "most" because that's something that could go from one extreme to the other. I don't want to get involved in that.

How do you address a problem like that—that's the point I'm trying to get in my mind—where you give a person a voucher—and they come into my office every day with a voucher with nowhere to go, and asking us to try to help them find a place, but there's nowhere to take their voucher. What do you do in a case like that, and when the homeless population is increasing every minute?

Mr. LANE. I was just going to try to help out, John.

Mr. WEICHER. Go right ahead.

Mr. TOWNS. OK.

Mr. LANE. There are a couple of ways. John talks about the FHA insurance on multi-family, and we're talking about vouchering out, and you know we're moving to vouchers that are no more than 2 years, is the proposal, and it will probably get down to annual vouchers.

If we could get those vouchers to the point where a private owner/developer—two flat, four flat; it doesn't have to be a big-time developer—could take that voucher to the bank and help finance his private, his market-rate units, and put some incentive in for that owner, you then might be able to increase the supply of housing for that voucher—the availability of housing.

But, John, if you dumped—right now, converted the 1.4 million public housing units to vouchers tomorrow, I'm here to tell you, in Chicago, you would have people again still living in the same place, and not just because they couldn't find it. The supply is not there for the population that we house in Chicago.

I also contend that if we are able to get public housing residents into a decent, market rate environment, that you will see changes in behavior that will impact cost of government, criminal justice

systems, school systems, and other things that will be profoundly beneficial to this country.

We did it in a high-rise public housing complex in Chicago on the lake front that was gang-infested and controlled by gangs. I refused to put all welfare families back in that building. I put them in with postal workers and deputy sheriffs and so forth.

And, after 3 years of being occupied, one, it rented up instantly. We had 3,000 people we couldn't take—working people who wanted to move in there, with the welfare families. And, 3½ years later, zero crime in 3½ years, no graffiti, no vandalism, and 20 percent of the families on welfare are now working full time.

We can save money, dollars. We talk about saving. I project that, if we redevelop the whole system in Chicago—49,000 units—at the time we have completed that redevelopment process, we would be able to return or create net positive cash-flow out of the dollars we get now of about 50 percent of our cash-flow. We'd be able to save $150 million a year.

Mr. SHAYS. If the gentleman would yield?

Mr. TOWNS. I'll be glad to.

Mr. SHAYS. Are you suggesting that that could be a model elsewhere or was it such a prime property on the waterfront that it——

Mr. LANE. It's the principles of it, and it could be a model elsewhere. The property was a block-and-a-half from a 3,600 unit public housing development with high crime rate. And it's because there were resources within those two buildings, 300 units, internal—working people who cared about their kids, and a day-care center, and so forth—they were able to keep the bad guys out and to bring up the standards of people who had less.

Mr. SHAYS. So, in that case, you're kind of adding credence to Mr. Weicher's comment that that could happen, that you could compete with the private sector with a voucher.

Mr. LANE. With a voucher, only if you've got landlords who are willing to take these tenants. I was told that we would never get working people to move in next to them.

Mr. SHAYS. Well, two things. Is the challenge to the voucher the Mr. Towns raised is the challenge in where you get people returning that they don't want to rent to people with vouchers, or that there's noplace available?

Mr. LANE. Oh, you have landlords who wouldn't think of taking a family who has teenage kids, because they're going to have problems, or they will view that they will have problems and that they are coming from public housing—from Robert Taylor, Cabrini Green—I can tell you, most people say, if you're given a choice, forget it.

Mr. SHAYS. I thank the gentleman for yielding.

Mr. TOWNS. Let me just pursue this a little further. I think that one thing that Mr. Lane is saying, that a strategy should be put in place, but I don't hear that from——

Mr. SHAYS. We never allowed Mr. Weicher to answer the question.

Mr. TOWNS. I'm sorry. That's right. We sure didn't.

Mr. WEICHER. Vince was helping me and so I never got to it.

Mr. TOWNS. Yes.

Mr. WEICHER. I think the answer to your question is this, Mr. Towns. Every voucher, every certificate that you authorize is used. If the individual, the family which receives a certificate, comes to the top of the waiting list, receives a certificate, is unable to find housing that it wants to rent with the certificate and that the landlord is willing to rent to them, the certificate goes back to the public housing authority. Someone else gets that certificate. Someone else uses it.

Every certificate is used. There is not, in that sense, a shortage of housing. There are individuals who find that they can't use the certificate to find housing that they want. There are other individuals who take the same certificate, take the same money, go and find housing that they want, that the landlord is willing to rent to them, that meets the quality standards of the program.

I think that that is as much as you can ask of any Federal housing program and I think that the way that our program should work is as close to the way the private market works as possible, which is a deal, a freely agreed deal, between a landlord and a household, that this is the unit the household wants, this is the household the landlord is willing to rent to. And that's the way the market really works for nearly everybody in the society and we ought to be making sure that it works that way for the poor people, as well.

Mr. TOWNS. How long does a certificate last?

Mr. WEICHER. Certificates have traditionally been 5-year budget authority. As Vince said a few moments ago, they're talking about 2-year budget authority. Most individuals, of course, if you rent, you rent on a 1-year lease or you rent month-to-month in the private market.

So that the question always is are you, as Congress, going to renew expiring contracts? Are you going to allow households to continue receiving certificates after the terms of the first 5 years or whatever expire? And the answer has always been yes, that certificates are renewed.

Mr. TOWNS. Ms. Dolbeare?

Ms. DOLBEARE. Yes. I was just going to make that point, in a slightly different way. That is, I think there are very few people who are now living in public housing or in the other assisted housing developments, who know about this proposal, who have any confidence at all that their certificates will be renewed.

I think that's part of the reason you have, in many cases, real panic among many of the tenants. What they see and what they fear is that this is a way of saying, "OK, you know, we'll give you—there will be a million certificates this year for people who are living in public housing and next year we'll have 900,000 and next year we'll have 800,000."

Now, there's no way of telling whether that's valid or not, because we can't read the future. I don't think it's anybody's intention that that happen.

I think, given the pressure of the budget constraints that the Federal Government is operating under, and particularly if the balanced budget amendment is adopted, that a lot of the concern about the Blueprint is raised not so much by what's in the Blueprint itself but by the fear that this will be another one of those

things like I cited in my testimony where you do something in housing on the assumption that you've figured out a way to take care of it, only the way to take care of it doesn't actually happen.

I'm a fan of vouchers. In many ways, I'd prefer to see vouchers to project-based subsidies. But I think we need to approach this in a very careful, thoughtful way to make sure that what the tenants fear is going to happen doesn't actually happen.

I have a lot of reservations about John's recommendation that we move very rapidly on this, because I think we have to be very sensitive to what is going to happen to tenants and also what may happen to some of those developments that might not survive in the short run with vouchers, but might survive with some project-based subsidies and which, if they could get over another 3 to 5 years, would be viable.

Mr. TOWNS. Mr. Lane.

Mr. LANE. Yes. Mr. Towns, one of the things John said, he's quite right. We use every certificate.

The ramifications of that public policy are that you create—they come right back into conventional public housing or they go right back to low-income neighborhoods where the lowest socioeconomic pathology exists and it multiplies, and you've got terrible schools and you've got terrible crime rates and you've got all the other things.

That's the result of the policy of taking people who have too many kids or old kids or whatever, and forcing them back into that environment.

What I am suggesting is that what we ought to be doing is using project-based funding to encourage the dispersal of low-income families throughout the population, because that policy of creating these pools of low-income people in neighborhoods where everybody in the community is totally dependent on the government subsidy is what is creating the social pathology that's driving this country up the wall.

Mr. WEICHER. I agree with that totally and, for that reason, I wouldn't force anybody to live anywhere. I would give every poor person the opportunity to take whatever money the Federal Government can make available to them and to go and find the housing that they want to live in in any neighborhood that they want to live in, wherever they can make a private deal with a private landlord.

The voucher program, the certificate program would lead to more integration—racial, ethnic, economic—than conventional public housing or the private, project-based assistance, because the projects are very visible, and so there's a big public local issue: do you want a project in your neighborhood?

The private decision of the landlord and the tenant is much less visible on the local level and the decision made by the tenant, by the landlord, as to where the tenant wants to live, who the landlord wants to rent to, results in a more integrated society in every dimension and results in fewer people living in the neighborhoods where the social pathology that Vince has eloquently described, where that social pathology is prevalent.

Mr. TOWNS. I hope I understand this, and sometimes I begin to wonder. It seems to me that that does not solve the problem in

terms of creating ghettoes and things of that nature, that's my only concern, unless we have the kind of flexibility at the local level to be able to do some creative kinds of things. If not, then I think that we're going to end up back in the same situation.

I'm not sure that you've taken away that concern of mine. I still sort of have that, the fact that if you are not able to do some creative things at the local level, what would prevent the situation to be the same?

I remember, as an undergraduate student, that we got rid of the board of directors at a school. We got rid of everybody. They quit. But we made a mistake. We didn't change the rules and regulations as to how they arrived so, instead of getting a tall guy creating the problem, this time it was a short one and instead of a thin one, it was a fat one.

The point is that the situation continued to exist, because we did not deal with the way people arrived. What I'm saying to you is that, based on my views and what I'm hearing, unless there's a strategy—and I hear from Mr. Lane that he's talking about a strategy, in terms of once you get this money, as to what you do with it.

But from you, Mr. Weicher, I'm not hearing a strategy. I'm just hearing you saying that, all right, you know, it will take care of itself; and I'm not sure that it will take care of itself. Could you further convince me that I'm wrong? I hope I'm wrong.

Mr. WEICHER. I don't know if I can and I'm not sure I would say that you're wrong. I'd say we're concerned about the same issues and we see different problems there.

My strategy is the strategy that nearly everyone in this room uses to solve his or her housing problem. That is to take the money that you have and to find housing that you want to live in where you want to live.

For poor people who don't have the ability to afford very much in the way of housing, I would give them as much money as the Congress can, so that they can go and find that housing and live in that housing. That, I think, is the strategy which will benefit the individuals and will ultimately benefit the neighborhoods they live in as they become part of the neighborhoods that they live in.

I think that many people in many areas do creative things to provide housing for low-income and moderate-income people in those neighborhoods, and that's fine. Those efforts are very small, in total. Meaning no disrespect at all to anyone who is working on them, including Vince, those efforts are small in total compared to the huge problems that we have in the 1.4 million public housing units that we have and the 1.6 million privately owned project-based assisted units that we have, which have tied you up in knots as an oversight subcommittee and which have tied up HUD in knots as an administrative body, and which have created and contributed to the pathologies that we are all fundamentally concerned with.

Mr. LANE. Mr. Towns, let me just say one thing. John is right. What you've seen in this country in HUD policy, non-profits producing housing, has been minuscule, and that's because we think small. We think and we put money out and we encourage empowerment of people at the grassroots level, but they don't have

the resources nor do they have, in many instances, the capacity to deal on a large scale.

What my strategy is, and the strategy is there, I'm matching up the local people with for-profit developers. I tell people, "You give me the same dollars that you're giving me today, let me treat my real estate like any other real estate. Let me get mortgages and let me assign rents, let me do other things."

I provide those dollars and get free land from the city for prime areas in Chicago—the North Side, Near West Side, around the University of Illinois.

Developers will come in for the same dollars that we're spending now, will create mixed-income communities back in the inner city, putting real estate back on the tax roll, reducing crime, providing viable places, permanently, for public housing residents.

In 15 years, if Congress or whoever the administration is says, "Well, you know, we want to get out of the subsidy business," at least you have a hard unit there and it's in a place that is a decent environment to raise kids. This country needs to provide hard units to help people bridge the gap from being low-income to being normal working Americans that can contribute to this country.

Mr. TOWNS. Let me just ask very quickly this question, and get your response to it. As you know, there's a tremendous amount of discussion around here about welfare reform. I would just sort of like to get your comments.

If we're going to reform welfare, shouldn't they be a part of this discussion in terms of HUD or whatever we decide to do with HUD? Shouldn't they be a part of that discussion?

Ms. DOLBEARE. They certainly ought to be related. I guess my concern is almost the other way around. That is that I don't really see how welfare reform can succeed in terms of enabling people to become self-sufficient unless they have access to decent, affordable housing.

I've been struck—I'm glad you asked this question, because I wanted to comment on Ms. Gaffney's testimony that we need to relate housing to welfare reform. I did a study last year—and I'll be happy to provide the information to the committee—on the relationship between fair market rents and the maximum AFDC grant for a mother and two children. I did some statewide averages, but this is true in metropolitan areas, as well.

Last year, in 1994, in 48 of the 50 States, the maximum grant—for everything, not just the shelter grant—for a mother and two children was less than the fair market rent for a two-bedroom unit.

Now, there is, in my view, no way at current welfare levels or at minimum wage levels or even double minimum wage levels that families who are now on welfare will be able to get housing, without some kind of housing subsidy, for anything like 30 percent of their income.

I think it's very necessary to realize that it's pretty difficult. A lot of the mobility that you have in inner cities are families who are living in unsubsidized housing and they skip a rent payment and then they skip again and their kids go to a different school, and that complicates, as well, the capacity to hold a steady job or even the benefits of getting a steady job.

I think it's unrealistic to think that welfare reform is going to succeed and going to provide people who are now on welfare with reasonable economic opportunities and a reasonable standard of living without also providing them some housing assistance.

I would say that that should be in the form of a voucher or certificate, because I think it's critical that there be a relationship between the assistance that's provided and the quality of the housing that's occupied.

Mr. LANE. Let me give you a more direct answer. Ninety-three percent of our families are single female heads of household on welfare—93 percent. Let's assume AFDC is cutoff. We get $40 million a year from those AFDC families. Whether it's coming from AFDC or if it's coming out in the form of increased HUD operating subsidies to us, because they offset the subsidy with the rent we collect, there is going to be a $40 million impact in Chicago if all those families no longer receive AFDC.

Mr. WEICHER. I would just say that I would treat the housing voucher and certificate program separate from any welfare reform that you all may enact, because I think that program works well on its own merits, as I've said several times, and I think that, if you try to fold it into the AFDC program, for whatever broad purposes, you're going to create tremendous confusion and complications while the new system settles down.

For that reason, whatever you do with welfare reform—and I think there's clearly some things that need to be done—I would leave the voucher and certificate program alone and, for that matter, if you don't adopt the voucher and certificate, I would leave, Heaven help us, the privately owned projects and the public housing out of the welfare reform.

Mr. TOWNS. Let me thank all the witnesses and thank you, Mr. Chairman, for your generosity.

Mr. SHAYS. Thank you. I loved your questions and you are a major participant in this process, and I thank you for your contribution.

I also thank all three of our witnesses. You've all been very helpful and very stimulating. I think you realize this is just the beginning of a major undertaking, and I encourage you to work with our committee and thank you for coming from Chicago.

I think both of you are in the general Washington area. But it was nice to have all three of you. I will now close the hearing. Thank you.

[Whereupon, at 12:50 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

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