

**Testimony of Carlos Jackson, Executive Director, Los Angeles County
Community Development Commission and Housing Authority of the County of
Los Angeles, before the House Financial Services Subcommittee on Housing and
Community Opportunity**

April 12, 2006

Good morning, Chairman Ney and Ranking Member Waters:

I am here today to provide testimony on behalf of Los Angeles County in regards to the Community Development Block Grant (CDBG) Program. I appreciate the opportunity to provide testimony about this Program, which is of great significance to our communities. In particular, I appreciate the leadership and support of Congresswoman Waters and Congressman Miller, both of whom have been steadfast in their support of the CDBG program.

Opening Statement

You have asked me to comment on the Administration's proposal which includes deep funding cuts to the CDBG Program, the elimination of the Section 108 Loan Guarantee Program, and the Brownfields Economic Redevelopment Initiative, formula changes and targeting within our communities. While all of these issues are critical to enabling us to administer an effective CDBG Program, I believe the most serious is the proposal to reduce formula funding. As we prepare for the Fiscal Year (FY) 2007 budget, we are again faced with a dramatic decrease. CDBG has long been used as a tool to improve the quality of life of Los Angeles County's low- and moderate-income residents. This proposed decrease in funding comes at a time when the 2000 Census shows that 1,674,599 of the County's women, children, and men are poor, when the average poor family in Los Angeles spends over half of its income on rent, when 266,800 County residents are unemployed and underemployed, and when Los Angeles, with its 90,000 homeless persons, is considered the nation's homeless capital.

Today, we face a proposed cut to the CDBG Program of 25 percent. This is in addition to the 21 percent cut that we have already experienced from FY 2001 to 2006. Our current funding is \$30.8 million, down from \$39 million in FY 2001. Should the proposed cut be approved, this would result in a cumulative \$16 million loss. Overall, the reduction in funding for this six-year period would be a staggering 40.7 percent.

These deep cuts, coupled with the tremendous need in Los Angeles County, have necessitated that we reduce funding and eliminate some programs and services. Further, many of our capital projects are funded on a multi-year basis. Any reduction in funding would create the necessity to reprioritize or de-fund new projects in order to fund our ongoing commitments to multi-year projects. Moreover, in order to ensure program effectiveness and maximize our resources, we utilize three (3) planning approaches when determining project allocations:

- Does the project leverage private funds?
- Is the project using a combination of government resources?
- Is this funding of last resort?

These approaches rely heavily on the CDBG program, as its flexibility has allowed us to address the multitude of needs of the County's most impoverished residents. Listed below are types of projects the County funds utilizing the three (3) planning approaches:

Leveraging of funds: Basettdale Homes Development, a \$14,285,636 project, used \$250,000 in CDBG dollars, \$2,259,850 in local development funds for property acquisition, and the balance of the project was comprised of conventional funding. Currently under construction are 45 homes, 23 of which will be reserved for first-time homebuyers that earn 80% or less of the median income.

Combining resources: Hale Morris Lewis Manor, a \$4,661,334 project utilized \$365,000 in CDBG funds, \$831,037 in local redevelopment funds, and \$928,444 in HOME funds. The project provides 41 units of senior housing.

Funding of last resort: Many of our public service and infrastructure projects administered within the unincorporated areas and participating cities rely on CDBG as funding of last resort. Public service projects such as after-school programs for youth, senior programs and mentoring/counseling assistance, serve the communities with the highest need, and some of the County's poorest residents, and may not be funded if the program is subjected to further budget cuts.

Currently, for every CDBG dollar expended on housing development, we leverage three (3) dollars in other public/private resources. Therefore, any reduction in CDBG funding would reduce our ability to leverage our scarce resources and develop much needed housing.

Overview

Los Angeles County operates the largest Urban County CDBG Program (Urban County) in the nation and has an allocation of \$34.6 million in our current fiscal year. The Urban County Program consists of the unincorporated areas, governed by the County Board of Supervisors, as well as 49 of the 88 cities within Los Angeles County. Forty of our 49 cities have participated in the program for the past 19 years. The Urban County population totals almost 2.2 million, 949,023 of which constitutes the population of the unincorporated areas, with the balance representing the 49 participating cities.

The Urban County Program utilizes the U.S. Department of Housing and Urban Development's (HUD) formula to distribute funding to its participating cities and the five (5) Supervisorial Districts for allocation within the unincorporated area. This formula, which allows for objective and equitable distribution of funding, takes into account

population, overcrowded housing, and poverty. Since 1975, it has been the County's policy to allow cities, and their respective city councils, the flexibility to identify and implement projects in accordance with their priorities, provided CDBG regulations are met.

The Community Development Commission (CDC) is the administrative agency of the County that serves as the CDBG planning, reporting, and compliance entity and implements the CDBG program in the unincorporated areas. In our capacity as administrator, we have met or exceeded both of HUD's requirements relating to performance standards: overall provision of benefit to low- and moderate-income residents, and the timely expenditure of funds. These performance standards have been exceeded in the following manner:

- CDBG Program requirements stipulate that we expend at least 70 percent of the CDBG funds to benefit low- and moderate-income residents. For the past four (4) years, the County, on average, has expended **94 percent** of its funds on these residents. For the year ending June 30, 2005, the County expended **95 percent** of its funds on services for low- and moderate-income residents.
- HUD requires that grantees have no more than 1.5 times their annual allocation unused 60 days prior to the end of each fiscal year. For the past ten (10) years, Los Angeles County has met or exceeded this drawdown performance requirement. As of April 30, 2005, our drawdown rate was at a historic low of **.81 percent**, well below the 1.5 percent standard.

Impact of Cuts to Los Angeles County

Since FY 2001, formula funding under the CDBG Program has declined from \$4.41 billion to \$3.71 billion in FY 2006. To restate, for the Los Angeles Urban County, funding has diminished by almost 21 percent, or an \$8 million loss, from \$39 million in FY 2001 to \$30.8 million in FY 2006. The decrease in funding can be seen in fewer dollars being available for vital programs and services the County depends on to assist its low- and moderate-income residents, who make up 4.1 million of Los Angeles County's 9.5 million population.

Fewer dollars limit the County's ongoing activities to assist those communities most in need, severely undercutting long-term plans for public improvements to streets and parks, as well as forcing cutbacks in special economic development activities, designed to assist small businesses, help create or retain jobs and maintain important business centers.

Community programs and services funded through the County's CDBG Program have also experienced significant impacts, with public service dollars being cut back by over 50 percent over the last six (6) years. Due in part to a shift in allowable public service spending from 25 percent back to 15 percent, critical programs for the homeless, elderly, and childcare have all sustained annual budget decreases with some CDBG

funded programs being eliminated altogether. These impacts hurt the County's economically disadvantaged residents the most, because they depend on these CDBG-funded services daily.

Despite the cuts, pressure on the Program is not easing and will be magnified even further by the proposed cut. The Administration is now calling for CDBG funding to again be reduced in FY 2007 by 25 percent, by far the largest one-year cut ever, resulting in a cumulative 40 percent cut to the Los Angeles Urban County Program since 2001. See the attached chart that demonstrates the significant cuts to the County's Program.

Should the 25 percent reduction be realized, this would result in the State of California losing \$119.7 million and the 35 entitlement jurisdictions in Los Angeles County losing \$41.1 million. Moreover, the Program cuts may have a significant impact on many of the smaller service oriented programs, seeing the potential elimination of programs such as prenatal care, direct business assistance, or housing rehabilitation services for seniors.

We support Congress' effort to respond to the Administration's proposed cuts and fund CDBG formula grants in FY 2007 at a funding level of at least \$4.3 billion.

Section 108/Brownfields Economic Redevelopment Initiative (BEDI)

We do not support the Administration's proposal to consolidate a number of programs including the Section 108 Loan Guarantee (Section 108) and BEDI programs. These programs have been useful leveraging tools in facilitating community and economic development activities. We believe that "consolidation" is essentially an elimination of the programs.

The Los Angeles Urban County has funded over \$56 million in Section 108 projects for 11 participating cities, which include industrial parks, downtown revitalization, and neighborhood facilities. The BEDI program supports a wide variety of projects, including developments with a strong business attraction, expansion and/or retention component, and new employment opportunities. A reduction in CDBG funding could lead to defaults on existing loans for community and economic development projects that are being repaid using CDBG funds.

In Los Angeles County, we have used the Section 108 and BEDI program to not only facilitate economic development and job creation, but also to eliminate brownfields. Below are two (2) recent examples of how Section 108 and BEDI have worked together:

- City of Santa Fe Springs Golden Springs Development Park - consists of a **\$20 million** Section 108 loan as well as a **\$1.75 million** BEDI grant and **\$2 million** Economic Development Initiative (EDI) grant. These funds converted a contaminated 130-acre oil production and storage site into a commercial warehouse and distribution center, which yielded **679** jobs.

- City of West Hollywood Gateway Retail Project - consists of an **\$8 million** Section 108 loan and a **\$2 million** BEDI grant. These funds converted an old car wash into a retail center that created **750** jobs.

Currently, there is a proposal by Congressman Gary Miller that would eliminate the requirement that local governments obtain Section 108 loan guarantees as a condition to receiving BEDI grant funding. De-linking BEDI grants from Section 108 loan guarantees is important because some smaller cities have difficulty in securing those guarantees. The de-linking of these two programs would lead to more use of the BEDI program and eventually more cleanup of brownfield sites and greater economic development for our cities.

Targeting of CDBG Funds

In 1987, the County developed a Community Profile, to serve as a guide to target community development activities within the unincorporated areas of the Urban County. Revised after every census, the report provides social, economic, and housing data derived primarily from census figures, to describe those areas of the unincorporated County that qualify for use of CDBG funding. The Community Profile serves as a resource tool to guide the County's community, economic and housing activities, and to prioritize the use of CDBG and other funds within the unincorporated areas.

The document identifies target areas, referred to as "Strategy Areas," which are eligible for CDBG funding based upon the income levels of residents and the physical condition of the neighborhoods. While many areas of Los Angeles County can benefit from public community development efforts, the target areas designated in the document have a majority of low- and moderate-income residents, as defined by CDBG requirements, and a demonstrated pattern of disinvestments and deterioration. The document provides statistical data and brief narrations to describe the character of the Strategy Areas and indicates in general the type of community development activities needed in these neighborhoods.

The Community Profile has identified housing and jobs among the most crucial areas needing to be addressed and requiring intensive investment, as outlined below:

Housing

Los Angeles is faced with a shortage of affordable housing and lack of developable land. Los Angeles has a rental vacancy rate of just three (3) percent and the median cost of a home is now \$565,000 while the median family income is just \$56,200. Further, the minimum household income needed to purchase a median priced home is approximately \$140,000. In December 2005, only 12 percent of Los Angeles County residents could afford the median home price.

CDBG funds have been integral in facilitating the development of **9,600 affordable housing units**, including special needs housing, over the past five (5) years. We have used our scarce CDBG funding to facilitate acquisition and off-site improvement costs,

while other funding, such as local redevelopment funding, has been leveraged to cover the actual development costs. Without CDBG funding, the County would not have been as successful in meeting its critical housing needs.

Homelessness

Sadly, Los Angeles boasts the Country's largest homeless population. There are a large number of homeless persons - 90,000 in Los Angeles County on any given night. On April 6, 2006, Philip Mangano, the Executive Director of the U.S. Interagency Council on Homelessness stated that "one out of nine homeless persons in this country lives in Los Angeles County."

CDBG dollars are used in combination with limited McKinney homeless funds (\$1.3 million) and funds from local sources. On April 4, 2006, the Board of Supervisors adopted the Los Angeles County Homeless Prevention Initiative, a plan to allocate \$100 million in general funds for homeless services, to include the development of emergency, transitional, and permanent housing, establishment of an acquisition and/or predevelopment loan program, and finance operating costs and rental subsidies associated with supportive services programs linked to housing.

CDBG funds also help provide direct supportive services to homeless individuals, families, and special needs populations. The Los Angeles Homeless Services Authority (LAHSA), a joint powers authority between the County and City of Los Angeles, receives CDBG funding from both entities to address the needs of the County's homeless population. Below are two (2) other examples of local agencies using CDBG funding to address the needs of the homeless:

- **\$103,508** in CDBG funding has been allocated to Chrysalis, a non-profit, over the last two (2) years, for its job training and employment programs. Homeless persons undergo training to provide maintenance services at properties owned by the CDC.
- **\$1 million** in CDBG funding was allocated this past fiscal year, to the Century Villages at Cabrillo, U.S. Vets, and the Long Beach Unified School District for the development and construction of the Mary McLeod Bethune Transitional Center for Homeless Students in Long Beach where homeless children are provided a safe place to go to school.

Economic Development

We have leveraged \$3.5 million in CDBG funds with more than \$2 million in Economic Development Administration funds to create an award winning business technology center in West Altadena. The center, which opened in 1998, is the only technology incubator in the nation owned and operated by a County agency. It has served as a high technology business incubator, creating more than 525 jobs, and graduating 16 companies. In addition, over 45 percent of the center's firms have received more than \$80 million in equity investment. One of most unique features of the center is its location in a redevelopment area, which is mostly a minority community and whose

residents are 48 percent low- or moderate-income. Most high technology incubators are operated by universities or are located in high-technology settings. The County made a conscious decision to locate the center in a redevelopment project area. The primary risk was that the surrounding corridor would dissuade new technology firms from locating at the center. Placing the center in West Altadena met three key objectives: it removed blight, provided an anchor to revitalize a commercial corridor, and used technology to jump-start a disadvantaged community. In addition to the incubator, over \$3 million in CDBG funds were utilized to acquire properties, relocate tenants and demolish structures in order to assemble the five-acre Lincoln Crossing Development. This mixed-use development, which is partially completed, will include a school, restaurants, an office building, lofts and affordable housing, etc. A fitness center opened in March 2006 and the Farm Fresh Market, which has been desired by the community for 20 years, is scheduled to open in the late Spring of 2006.

Public Facilities and Infrastructure

CDBG funds are also leveraged with State bond funding designated for library, park and infrastructure improvements to upgrade community facilities, as well as provide new access to services. An example is the Steinmetz Park Senior Center Expansion, located in the unincorporated community of Hacienda Heights, which had a total project cost of about \$3.5 million. Approximately \$1.83 million in CDBG funds were leveraged with \$1.67 million in general funds and Proposition "A" funding to expand the facility which was heavily used but was not able to meet the needs of the growing senior population. With the expansion, the Center is now able to serve many of the 12,000 senior citizens who live in the community.

Highlights of Accomplishments

The following denotes accomplishments resulting from CDBG projects undertaken within the County using the needs identified in the Community Profile. Specifically, from FY 2000 to FY 2004, CDBG funds in Los Angeles County have been used to:

- Rehabilitate over 8,500 homes for families, seniors, handicapped and disabled persons;
- Create and preserve over 2,060 jobs;
- Provide loans and technical assistance to over 7,000 small businesses;
- Remove over 41 million square feet of graffiti;
- Provide after-school and recreation programs to 170,500 children and teens; and
- Provide meals, case management, and other services to 87,500 seniors.

Without CDBG funds, these activities would not have been funded, thus creating a wider gap of unmet needs.

CDBG Formula Reform

As you may know, HUD has released a study with four (4) alternatives to the current formulas that are used to allocate funds to entitlement jurisdictions. The President, in his proposed budget, has indicated that the CDBG formula should be revised to better target funds to needs, however, the budget is vague with respect to how community need would be defined or which, if any, of the four (4) alternatives in HUD's formula study the Administration supports. The Administration's budget also indicates that a formula revision would include a bonus tied to performance. However, again no details on this bonus structure were provided. We would oppose any bonus that would result in funds being taken from existing CDBG formula grant since that would result in a reduction in funds available for allocation.

To date, we are not aware of any congressional field hearings that have been held to solicit input on the formula alternatives and there is no authorizing legislation proposing a change from the current allocation formulas to the alternative formula proposed in the Administration's budget. Prior to the adoption of any change in the CDBG allocation formula, we would request the opportunity for full review of the proposed formula by the national organizations and input by constituents through Congressional hearings. The County of Los Angeles has not adopted a position on any of the formula alternatives, but we would support an alternative that better distributes funds to communities with highest needs and maximizes funding to support the objectives of the Program to develop viable urban communities, provide decent housing and a suitable living environment, and expands economic opportunity primarily for low- and moderate-income individuals.

Wealthy Communities

There has been recurrent discussion relative to the reform of the CDBG Program by reducing or eliminating funds that are allocated to so called wealthy communities. Despite the fact that some communities may be comprised of mostly high income residents, these cities must still comply with regulatory requirements for ensuring that at least 70 percent of their CDBG funds are spent to benefit low- and moderate-income persons, eliminate blight or address an urgent need as a result of a natural or man-made disaster. To do otherwise would result in sanctions by HUD for non-compliance. To illustrate a point, the City of Beverly Hills, a participating city in the Los Angeles Urban County Program, which is typically viewed as a wealthy city, has 21 percent low- and moderate-income individuals, the majority of whom are seniors and eligible for services. But for CDBG, they would not have the benefit of receiving assistance to rehabilitate their homes, participate in social programs or have transportation to and from critical life services such as medical appointments or the market.

While we support reform that better distributes CDBG funds to entitlements based on need, we would not support the elimination of funding from so called wealthy communities because even these areas inevitably have low-income seniors and others that need assistance through the CDBG Program.

Reform Needed to Reduce Administrative Burden

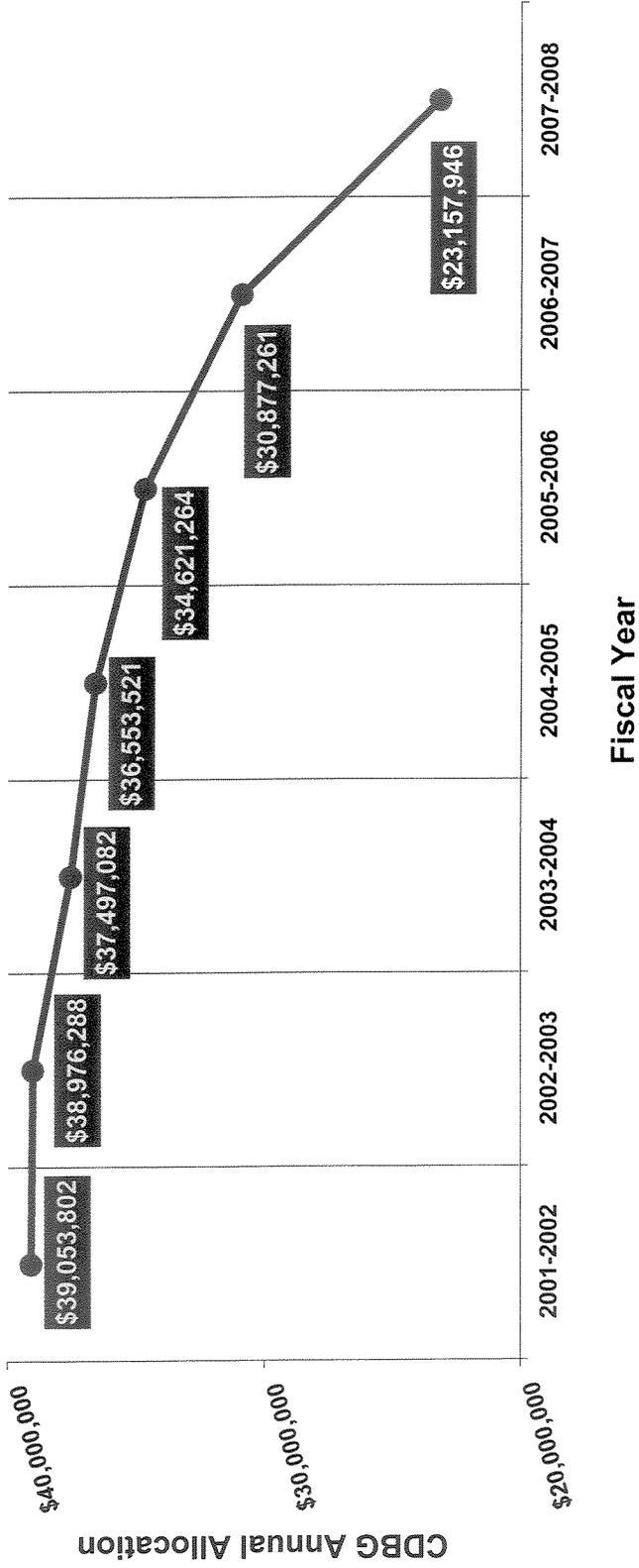
Although CDBG funding has decreased, reporting requirements have increased with the implementation of HUD's Outcome Performance Measurement System (OPMS). While we support the improvement in reporting to capture qualitative data, we would encourage further streamlining by consolidating the annual report and planning documents into an automated process to avoid the duplication of effort. The following changes can be made to the CDBG Program to focus more attention on implementation of projects rather than administration.

- Multiple administrative requirements for the CDBG Program including the Consolidated Annual Performance and Evaluation Report (CAPER), Action Plan, Consolidated Plan, Integrated Disbursement Information System (IDIS), and pending Outcome Performance Measurement System should be consolidated and streamlined. While the intent behind these administrative mechanisms is to improve the process, in effect, it is a duplication of similar reporting requirements and creates an additional burden on grantees. We recommend a relief from the CAPER and the Consolidated Plan reporting requirements, once the new OPMS is executed.
- In its current form, IDIS is not compatible with other large grantee systems. Making IDIS compatible would allow for seamless planning and reporting of the proposed OPMS and eliminate duplication of effort. The quality and quantity of data provided by the largest Urban County would be limited without a system-to-system interface for the electronic transmission of data between grantees and the updated IDIS. This change should also benefit States. It is recommended that the updated IDIS support a data-to-data structure using an Internet standard data format (such as XML) to enable compatibility with the greatest number of grantee systems.

Conclusion

Thank you for the opportunity to speak with you today regarding the importance of the CDBG program and the impact of the Administration's proposal on Los Angeles County residents. We look forward to your continued support of the CDBG Program and extend our offer to assist you in anyway as you work to restore funding of not less than \$4.3 billion to this critical program.

Los Angeles Urban County CDBG Funding 2001-2007



Annual Percentage of Reduction

Fiscal Year	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008*
Annual		-0.20%	-3.80%	-2.52%	-5.29%	-10.81%	-25.00%

Accumulative Percent of Reduction From 2001-2002

Fiscal Year	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008*
Cumulative		-0.20%	-3.97%	-6.40%	-11.35%	-20.94%	-40.70%

Dollar Reductions by Fiscal Year

Fiscal Year	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008*
Year-to-year		\$77,514	\$1,479,206	\$943,561	\$1,932,257	\$3,744,003	\$7,719,315

Total Funding Reduction over the Six (6) Year Period:

\$ 15,895,856

*Fiscal Year 2007-2008 amounts are estimated projections.