

December 10, 2008

Obama-Biden Transition
Housing and Urban Development Agency Review Team
5th and D Street NW
Washington, DC 20270

Dear Agency Review Team Members:

The undersigned organizations are pleased to take this opportunity to offer recommendations for consideration by the incoming Administration of President-elect Barack Obama. We urge the incoming Administration to focus on community development, affordable housing, and economic development as priorities. Given the ongoing housing and financial crises, the U.S. Department of Housing and Urban Development (HUD) is well-positioned to play a central role in confronting our nation's most serious challenges. HUD programs including the Community Development Block Grant program, Home Investment Partnerships program, Section 108 Loan Guarantee program, and the Brownfields Economic Development Initiative must be strengthened and deployed strategically in the years ahead. This letter outlines our shared priorities in a number of program areas.

Community Development Block Grant (CDBG) Program

CDBG funds are a flexible resource that enables State and local governments to meet their infrastructure, economic development, affordable housing, and public services needs, while principally serving low- and moderate-income households. CDBG is a catalyst in creating and retaining jobs for low- and moderate-income persons. Unfortunately, CDBG formula funding has been cut by over \$800 million since FY 2001, even before adjusting for inflation. The program is clearly not adequately funded to meet the rising community development, economic development, and affordable housing needs facing communities and neighborhoods across the country. To that end, we:

- Support *at least* \$10 billion in emergency CDBG funding as part of the economic recovery package, with this funding to be distributed through the program's regular formula allocation process in accordance with existing program regulations.
- Support the President-elect's commitment to fully fund the regular CDBG program. We would note that CDBG formula funding has never been adjusted for inflation since the program's inception in 1974, even as construction costs, wages, and other program costs have escalated sharply over the past three decades. After adjusting for inflation, restoring CDBG formula funding to the FY 2001 appropriated level would require approximately \$5.4 billion.
- Support annual community development technical assistance funding of at least \$5 million for the CDBG program. These funds will provide needed program training and technical assistance for grantees to ensure the effective and efficient administration of program funds.
- Revisit and update the methodology used for reporting jobs created or retained as a result of CDBG-funded projects. Job creation and retention is consistently underreported due to an outdated and overly narrow statutory definition that is inconsistent with the methods

employed by other federal programs to document job generation. We recommend that HUD use economic multipliers similar to those used by the Department of Labor to better report the jobs created and retained through CDBG investment.

- As they attempt to maintain existing service levels in a climate of declining funding, State and local government CDBG grantees have been experiencing considerable pressure on the existing administrative cap. One simple way to provide grantees with relief would be to make activities that affirmatively further fair housing (under Section 106(d)(7)(B) of the Housing and Community Development Act, as amended) directly eligible under the CDBG program. These costs are currently paid for out of grantees' administrative funds.

Home Investment Partnerships (HOME) Program

The HOME program provides State and local governments with the resources to fund the expansion of affordable homeownership and rental opportunities for low- and moderate-income households. The program has an impressive track record, having financed over 1 million units of affordable housing since its inception in 1992. Like CDBG, the funding for the HOME program has been cut in recent years, and the program has never been adjusted for inflation. The erosion of HOME program funding has hamstrung the ability of States' and localities' to meet the growing demand for affordable housing. To that end, we:

- Support substantially increased formula funding for the HOME program for fiscal years 2009 and 2010. As with the CDBG program, HOME program funding has never been adjusted for inflation. Restoring HOME formula funding to its FY 2004 appropriated level would require approximately \$2.9 billion after accounting for inflation.
- Suggest that decision makers consider a substantial infusion of HOME program funding as part of the economic recovery package.
- Recommend that decision makers consider increasing the administrative fee under the HOME program, which is currently set at 10 percent. HOME is a successful program that has produced hundreds of thousands of new affordable units. Program grantees must monitor these units for up to twenty years, a requirement that adds to the administrative cost of the program. Moreover, other administrative tasks, such as performance measurement reporting and responsibilities related to the Integrated Disbursement Information System (IDIS), have further compounded the administrative burden.

Economic Development

We support full funding for all of the complementary programs within HUD's community and economic development toolkit. Continued funding for these programs is necessary to ensure that HUD does not lose sight of the redevelopment component of its mission. To that end, we:

- Support at least \$7.3 million in credit subsidies for Section 108 loan guarantees for fiscal years 2009 and 2010.
- Support at least \$25 million for the Brownfields Economic Development Initiative (BEDI) in FY09 and FY10.
- Support the de-coupling of the BEDI program from the Section 108 program so that communities may opt to compete for BEDI funds without having to first secure a Section 108 loan guarantee. The current requirement can lead to unnecessary administrative

burden while increasing the time needed to successfully redevelop projects on brownfields. The suggested change will also make it easier for non-entitlement cities to compete for and receive BEDI funding.

HUD Staffing

We support increased funding for the hiring of new HUD staff at both headquarters and in field offices across the country. With the recent provision of billions of dollars in disaster CDBG and Neighborhood Stabilization Program funding, HUD's CDBG staff are critically overburdened and in need of additional personnel to help administer these emergency programs. In addition, staffing at the field office level has been cut over the last eight years, with some program areas not having adequate staff to administer the programs and monitor grantees.

Neighborhood Stabilization Program (NSP)

The NSP will assist communities hardest hit by the foreclosure crisis while also providing new affordable housing opportunities. The new Administration and Congress should work closely with stakeholders in an effort to identify and act upon any challenges that arise as States and localities begin to commit and expend NSP funds. We suggest that the following actions should be considered:

Statutory Changes:

- **Program Income/Revenue Recapture:** Any income generated from homeownership or rental housing activities must be returned to the Treasury after the initial five year period of the program. Low- and moderate-income homeowners or owners of rental property will not be able to share in the property equity which, in turn, will prevent these families from building wealth. Moreover, State and local grantees will not be able to re-use the program income to assist other low- and moderate-income households in need of homeownership or rental assistance. To remedy this situation, we suggest amending the statute to apply the existing CDBG program income requirements where applicable.
- **Extend Deadline to Use Funds:** Grantees must use (commit) their NSP funds within 18 months. It will be extremely difficult for many grantees to meet this deadline due to changing market conditions and the unique and challenging requirements of the program. We suggest that extending the deadline to 36 months would be a workable solution.
- **Deadline on Expenditure of Administrative Funds:** HUD's NSP guidance is silent on whether grantees must spend their entire administrative allowance within the 18-month use period. The statute should be amended to permit grantees to continue spending their administrative allowance over the four-year program period.
- **Foreclosure Prevention as an Eligible Activity:** Congress should consider modifying the statute to allow some amount of NSP funds to be used for foreclosure prevention. While abating the problem of foreclosed and abandoned properties should remain the program's primary focus, States and local governments need the flexibility to help families stay in their homes in order to stem the tide of foreclosures.

Regulatory Changes:

- **Purchase Discount:** As part of the program regulations, HUD is requiring grantees to purchase properties at a discount of 5 percent from the current market-appraised value with an average discount of 15 percent for all properties purchased within the 18 month

use period. The purchase discount is problematic for two reasons. First, it devalues homes in already declining areas, causing additional destabilization in neighborhoods. Second, grantees cannot successfully compete for the purchase of homes in some markets due to the discounted price requirement. HUD should revisit its interpretation of the statute's discount requirement.

- **Flexibility in Meeting the 25 Percent at 50 Percent Requirement:** To assist grantees in meeting the program requirement that at least 25 percent of the NSP funds be directed to households at 50 percent or below area median income, we ask HUD to expand the definition of "abandoned" in Eligible Use B (purchase and rehabilitation of homes and residential properties that have been abandoned or foreclosed upon) to include properties that are not in foreclosure. HUD should also allow non-residential properties to be purchased for redevelopment as affordable housing. Moreover, we ask HUD to allow Eligible Use E (redevelop demolished or vacant properties) to count toward meeting the 25 percent requirement. Many communities would like to build or redevelop housing for the elderly and permanent supportive housing for the homeless through the conversion of schools and motels and through the demolition of blighted properties.
- **Categorization of Supportive Housing Units:** HUD considers supportive housing to be a public facility rather than a discrete set of housing units under the NSP. A grantee using NSP funds to purchase a block of units in order to provide supportive housing for the homeless would therefore be unable to count those newly-produced supportive housing units against meeting the 25 percent at 50 percent requirement. HUD should provide greater flexibility in this area.
- **Appraisals:** HUD's requirement that appraisals be secured by the purchaser from an independent appraiser is restrictive. Alternative approaches should be considered, such as using the seller's appraisal or using an alternative approach to value the property. It seems the main or only purpose for this stipulation is to document the purchase discount achieved. Obtaining a certified appraisal will add unnecessary expense and cause delays in the property acquisition process. Most cities and counties have valuation procedures (such as tax assessment) in place that could provide a viable alternative to the certified appraisal requirement.
- **Housing Counseling:** The use of HUD certified nonprofit counseling agencies is too restrictive. Other qualified agencies, including experienced grantees, nonprofits, and housing authorities, should also be allowed to provide the counseling.

We thank you for the opportunity to communicate our priorities related to HUD's community development, affordable housing, and economic development programs. We stand ready to work with the new Administration as it addresses these priorities in the coming months.

Sincerely,

Council of State Community Development Agencies

National Association of Counties

National Association for County Community and Economic Development

National Association of Housing and Redevelopment Officials

National Association of Local Housing Finance Agencies

National Community Development Association

United States Conference of Mayors