

**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**

June 30, 2003

Good morning, Chairman Ney and Ranking Member Waters:

I am here today to provide testimony on behalf of Los Angeles County in three areas: the Community Development Block Grant (CDBG) Program, the Section 108 Loan Guarantee Program, and the status of the Los Angeles Community Development Bank. I appreciate the opportunity to provide an oral statement and written testimony about these programs, which are of great significance to our communities.

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

Overview

Now entering its 29th year, the CDBG Program is one of our nation's most successful domestic programs. Los Angeles County operates the largest Urban County CDBG program (Urban County) in the nation and receives an annual allocation of approximately \$38 million. Participating in the Urban County program are 48 of the 53 cities with populations of 50,000 or less, as well as the unincorporated areas governed by the County Board of Supervisors. The Urban County population totals almost 2.2 million, 1,218,230 of which constitutes the participating cities populations, and the balance represents the unincorporated areas.

Since 1975, it has been the County's policy to allow cities, and their respective city councils, to identify projects and implement them as they see appropriate, provided CDBG regulations are met. For the unincorporated areas, the CDC administers the CDBG program.

The U.S. Department of Housing and Urban Development (HUD) requires that grantees meet two (2) performance standards: overall provision of benefit to low- and moderate-income residents, and the timely expenditure of funds. The County has exceeded both of these performance standards in the following manner:

- The County consistently expends 90 percent or more in CDBG funds to residents of low- to moderate income, while the CDBG program requirements require that we expend at least 70 percent of the CDBG funds to benefit these residents. For the year ending June 30, 2002, the County overall expended 94 percent toward low- and moderate-income benefit activities: participating cities expended 92.71 percent and unincorporated areas expended 93.59 percent.

- For the past 10 years Los Angeles County has met or exceeded this timely performance measurement requirement. As of April 30, 2003, our drawdown rate was .95 percent well below the 1.5 percent requirement (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).

Allocation Method

For this testimony, the CDC has been asked to provide information on the CDBG allocation method. As indicated earlier, in 1975, the Board of Supervisors adopted the HUD allocation formula in order to fairly distribute CDBG funds to the unincorporated areas and participating cities. The CDC utilizes HUD's formula to distribute funding to its participating cities and the five (5) Supervisorial Districts for allocation within the unincorporated area. This formula takes into account population, overcrowded housing, and poverty. However, in comparison, Urban Counties vary on how they distribute their funding. Counties such as San Diego and Orange, openly accept applications and proposals for funding from interested organizations, including non-profit organizations and participating cities. Funding is then awarded on a competitive basis.

Using this formula allocation, the County's CDBG entitlement is distributed almost equally among the participating cities and Supervisorial Districts. Participating cities are allowed to determine the type of projects to fund, as well as the funding levels for their specific programs. Further, the cities are required to meet all eligibility requirements and conduct public outreach prior to obtaining final approval from their respective city councils. The CDC administers the CDBG program on behalf of the Supervisorial Districts and hosts 16-community meetings throughout the County to obtain public comments on community development needs. The National Association of Counties (NACo) recently recognized the success of the community meeting format, by issuing its 2003 Achievement Award to the CDC. These comments are forwarded to each Board office and projects are reviewed and approved based upon each Office's needs. Examples of funded activities include:

- Economic development such as neighborhood revitalization and business loans;
- Affordable housing including direct homeownership and rehabilitation assistance;
- Public services including youth/senior programs and graffiti removal; and
- Public improvement projects such as street and sewer improvements.

Specifically, for neighborhood revitalization and the enhancement of economic development in the unincorporated areas, we engage in the following activities:

- Façade improvements through the Community Business Revitalization Program;
- The provision of technical assistance to businesses in specific target areas, including Athens;
- Neighborhood improvement and beautification programs; and
- Micro business loans.

To provide improved community facilities, CDBG funds are allocated for park improvement projects, and community center improvements.

Public Services

There is a great need in Los Angeles County for the provision of public and social services, however the funding is extremely limited. Therefore, many needs go unmet. Beginning tomorrow, the County will enter its last fiscal year prior to the rescission of the public service cap from 25percent to 15percent. This will result in a decrease of available public service authority from \$9,494,520 at 25 percent to \$5,696,712 at 15 percent. Since the initial waiver, which was approved by Congress in 1992 to address the underlying causes of the 1992 Civil Unrest, the Board of Supervisors has consistently gone on record in requesting continued extensions to the cap. More recently the Board has strongly requested a permanent extension of the cap to the 25 percent level, in order to address the emergent needs in Los Angeles County. As we are experiencing diminishing resources in the area of public and social services, the necessity for a permanent waiver is more critical than ever in assisting us to meet those needs.

Public service authority is utilized in the County to fund the following type of programs:

- Meals for seniors;
- After school recreation programs for youth;
- Tutoring and mentoring programs;
- Healthcare for seniors, adults and children;
- Drug intervention programs; and
- Domestic violence counseling.

Compliance Monitoring

As the administrator of the Urban County CDBG program, the CDC is responsible for ensuring compliance with all federal regulations. In order to accomplish this, the agency conducts year-round performance reviews of its Participating Cities, County departments, Community Based Organizations (CBO's) and District projects. Listed below are some examples of the compliance monitoring that is implemented annually:

- Accounting System Reviews – conducted for all new CBO's prior to funding to ensure that there are appropriate fiscal and accounting systems;
- Desk Top Reviews – conducted each quarter to identify early warning signs around program and expenditure progress; and
- Joint and Individual Field Reviews – conducted to review fiscal, programmatic and expenditure compliance; these review are conducted annually for every CBO.

In an effort to ensure that all agencies are aware of regulations and implementation requirements, ongoing technical assistance is provided on an as needed and mandatory

basis. Approximately 12 training sessions are scheduled per year. Examples of the types of training are listed below:

- Financial training;
- Sub-recipient monitoring; and
- Federal labor compliance.

Planning Documents

HUD requires the preparation and submittal of a five-year strategic Consolidated Plan and an annual Action Plan, both of which identify the types of projects proposed for funding, based on input from residents, the Supervisorial District offices and our community development partners. Both documents were approved by the Board on May 27, 2003, and submitted to HUD. The Consolidated Plan was prepared by CDC staff in conjunction with a consultant, who assisted in obtaining citizens views on community, economic and housing development needs within the County. Approximately 4,500 surveys were received from unincorporated areas and participating cities while eight (8) community meetings were also held with County residents. Proposed projects for participating cities and the unincorporated areas are consolidated into the annual Action Plan that is submitted to HUD for approval.

While the 5-year plan proposes long-term projects, the Action Plan serves to outline annual projects that address our community development priorities. The 5-year plan is used as an evaluator to see if program objectives identified are met. Upon annual review, if the program objectives identified in the 5-year plan are not being met, amendments are made to the Consolidated Plan. Additionally, the CDC regularly submits the Consolidated Annual Performance and Evaluation Report (CAPER) to HUD where we report on the annual performance of the fiscal year projects that actually received funding. We use this report as a mechanism to identify whether or not needs were met, and also to modify future funding decisions.

Local Administration of the CDBG Program

In the future, should discussions surface regarding the appropriateness of transferring the CDBG program to State administration, we would strongly oppose this action. It is advantageous to keep administration of the CDBG Program at the local level. Any removal of local government from the administration and implementation of the program would impede the identification of local needs and the swift delivery of services to County residents. This can be evidenced by the fact that Urban Counties are expending CDBG funds in a very timely fashion. As of June 2, 2003, only nine (9) out of 159 Urban County grantees had untimely expenditures.

SECTION 108 LOAN GUARANTEE PROGRAM

I am disappointed by the Bush administration's proposal to de-fund the Section 108 Loan Guarantee Program (Section 108). It is our understanding that HUD only intends to carryover the remaining balance of funding authority allocated for this current year.

This program has been a useful tool in facilitating community and economic development activities. Because of limited funding, all tools available to cities and unincorporated areas are used to meet constituents' needs.

The Section 108 program is a critical tool for urban revitalization. Elimination of the program would further limit local governments ability to economically revitalize their communities.

Current Status

The CDC's total Section 108 Loan Portfolio is \$38,045,000, which comprises eight (8) loans. One additional loan for \$2.5 million is pending for the City of San Fernando pool facility, currently in review.

Our current portfolio consists of the following:

- City of Azusa - Business Revitalization in the amount of \$2,435,000;
- City of Culver City - Senior Center in the amount of \$2,020,000;
- City of Maywood - Community Center in the amount of \$2,600,000;
- City of Signal Hill - Community Center in the amount of \$280,000;
- City of Claremont - Senior Center Expansion in the amount of \$410,000; and
- unincorporated West Altadena - Site Assembly for Retail Center in the amount of \$2,300,000.

In addition to the six (6) loans listed, the following two (2) loans are examples of how the Section 108 program has been utilized to not only facilitate economic development and job creation, but also to eliminate brownfields.

- City of Santa Fe Springs Golden Springs Development Park, consisting of \$20 million Section 108 this fiscal year as well as \$1.75 million in Brownfields Economic Development Initiative (BEDI) and \$2 million in Economic Development Initiative (EDI). This project will create 679 low- to moderate-income jobs.
- City of West Hollywood Gateway Retail Project, consisting of \$8 million Section 108 loan next fiscal year and \$2 million in BEDI dollars, which will create 750 jobs.

We compliment HUD's efforts to further streamline the approval process. Despite the negative comments regarding the program, our experience has been very positive. We have not had any defaults nor have we encountered any compliance concerns.

LOS ANGELES COMMUNITY DEVELOPMENT BANK

Overview

In the period immediately following the civil unrest of April of 1992, groups of organizations from throughout the Los Angeles area met to plan and organize

emergency relief needs and ultimately, to deal with the underlying issues that many believed were the direct causes of the civil unrest. The result was a joint County- City application for the designation of a target area under the federal Empowerment Zone Program. This effort was unsuccessful. In 1994, HUD responded to the County and City proposal with an alternative – the designation of a Supplemental Empowerment Zone and the creation of a new kind of financial institution to be known as the Los Angeles Community Development Bank (LACDB).

The Los Angeles Community Development Bank was a joint effort between the County and City of Los Angeles and HUD. The creation of the LACDB was innovative and established for the purpose of utilizing Economic Development Initiative (EDI) grant funds and HUD Section 108 loan guaranteed funds through an independent financial institution, the LACDB, to target substantial investments to create jobs, economic opportunity and financing for economic development projects and to serve as a catalyst to revitalize our most distressed neighborhoods.

On June 27, 1995, the County Board of Supervisors approved a Comprehensive Agreement, among the County, the City of Los Angeles (City) and the Los Angeles Community Development Bank (LACDB). The Comprehensive Agreement instituted a new source of funding through the LACDB for businesses in areas that were designated as a supplemental federal Empowerment Zone by HUD.

Of the 41 census tracts in the Empowerment Zone, 36 census tracts are in the City of Los Angeles. The County has direct jurisdiction over the remaining five (5) census tracts, in the County unincorporated areas of Willowbrook and Florence; Florence is located in the 35th Congressional District. These areas are referred to as the County portion of the Empowerment Zone.

The Empowerment Zone program in the County areas was funded with \$25 million of HUD Section 108 Loan Guarantee Program and a companion amount of \$25 million of Economic Development Initiative (EDI) grant funds. The County designated \$30 million of these funds for use by the LACDB for loans in the County portion of the Empowerment Zone. The County set aside the remaining \$20 million of these funds for use in an Economic Development Fund (EDF) for future Empowerment Zone projects such as the expansion of facilities related to, or complementary to, the Martin Luther King/Drew University Medical complex in the Willowbrook Redevelopment Area, or to projects that would revitalize the Florence area.

Current Status

To date, the LACDB has funded twelve loans, totaling \$4,777,275 in the County's portion of the Empowerment Zone. At this time, less than \$200,000 in loan balances remains outstanding since most of the loans have been paid off, defaulted or otherwise closed. The LACDB has attributed to the low loan volume to the small trade area, and competition from other lenders.

Transition Plan

In December 2002, the Board of Supervisors approved a transition plan, submitted by the Board of Directors of the LACDB, which called for the LACDB to work closely with the County to provide for the transfer of assets of the LACDB and the County loan portfolio to the CDC prior to the expiration of the program.

Concurrently, the CDC is working with HUD to affect the transfer of the remaining Section 108 Loan authority and EDI grant funds to the CDC's EDF. Once the LACDB is closed, the remaining funds will be subject to the County's EDI Grant Agreement related to the EDF. We have requested that HUD extend the term of the EDF Grant Agreement to 2007 to accommodate the longer development cycle of EDF real estate based projects, and we have asked for other amendments to provide regulatory relief to enhance the prospects for success.

Economic Development Fund

The County is actively pursuing projects to fund in the Willowbrook and Florence areas, in accordance with the provisions of the Supplemental Empowerment Zone application and the EDI grant Agreement. The CDC has an Exclusive Right to Negotiate with the Los Angeles Eye Institute to develop a major regional medical facility on CDC owned property in Willowbrook. Additionally, the CDC is working with the Charles Drew University School of Medicine on ways to support their Master Plan for campus expansion in Willowbrook, and is working on proposed retail projects located in the Florence area. The CDC's EDF, supplemented by the remaining EDI grant and HUD Section 108 Loan authority allocated to the LACDB, will have sufficient funds to help complete these projects.

Conclusion

Thank you for giving me the opportunity to speak with you today regarding the impact of these funding sources on the residents of County of Los Angeles. We look forward to your continued support of the CDBG and Section 108 programs.