

June 25, 2003

U.S. House of Representatives
Committee on Financial Services
Subcommittee on Housing and Community Opportunity
2129 Rayburn House Office Building
Washington, DC 20515

Honorable Members of the Subcommittee on Housing and Community Opportunity:

I'd like to thank the Subcommittee Chairperson Ney and Congresswoman Maxine Waters for bringing this hearing to the City of Los Angeles. As Chair of the Los Angeles City Council's Economic Development & Employment Committee and Vice-Chair of the Housing & Community Development Committee, it is my pleasure to provide testimony as requested on the City's CDBG Program and the Community Development Bank.

Community Development Block Grant

Los Angeles is a large and diverse city with over 3.6 million residents. Angelenos speak over 140 different languages and dialects and hail from all over the country and the world. According to Census figures, 22% of our residents are living at or below the poverty line. The Census Bureau also estimates that the City of Los Angeles' undercount was 76,800 people, mostly minorities. The City loses \$242.76 in CDBG and state funds for every missed person. When multiplied over the 10- year period that the census data is used, the City of Los Angeles will lose over \$180 million in funding, of which over \$60 million is lost CDBG.

Our needs for community and economic development are as many and diverse as the neighborhoods of Los Angeles, and far exceed the Block Grant dollars we have available. Local budgeting of our Consolidated Plan grants allows us to respond to these diverse needs neighborhood by neighborhood and to plan and leverage our Federal grant dollars with locally funded programs such as the City's \$100 Million Affordable Housing Trust Fund and our LA Bridges Gang Intervention Program. It is my firm belief that local government understands best the unique needs and challenges in each of its neighborhoods and communities and that the budgeting process belongs where it has traditionally been--at the City level.

One of the primary uses of the City's CDBG is to provide a broad range of community development activities including homeless services, after school programs,

domestic violence shelter, senior services and youth recreation. These services are utilized by over 400,000 clients throughout the City of Los Angeles and in many cases are catered to the linguistic and cultural needs of the particular neighborhood in which they serve. The City is able to provide this array of services due in part to a waiver of the 15% cap on Public Services that allows us to use 25% of our Block Grant on services. This waiver expires at the end of the program year. If not extended, we will face an \$11.2 Million or 40% reduction in CDBG-funded public services in the City of Los Angeles. I urge your consideration for extension of the City's waiver or at very least a multi-year, phased approach to reducing the services cap to 15% so as to avoid such a dramatic reduction in services in a single year.

The City's process for drafting the Consolidated Plan follows a similar process as our general City Budget. The City's Community Development Department prepares the Consolidated Plan. The Mayor's office directs CDD in drafting a proposed budget. The Economic Development & Employment Committee and Housing & Community Development Committee jointly review the proposal and propose changes for full Council adoption. The full Council adopts a revised budget, which is again subject to approval by the Mayor or to the Mayoral veto process as provided by City Charter.

Public input to the Consolidated Plan process is encouraged and provided by a citizen advisory board, the Citizens Unit for Participation (CUP). The CUP is the primary body for scheduling public meetings, workshops, hearings, and solicits public comment on both the draft and final Consolidated Plan. Requirements for membership in the CUP are designed to encourage participation by low-and-moderate-income persons, particularly those living in slum and blighted areas; and in areas of Los Angeles where use of CDBG funds are needed. Further, CDD posts the Consolidated Plan on the City's website for public review and notifies the City's network of Neighborhood Councils of related hearings.

It should be noted that the City is currently in process of evaluating alternative allocation methodologies for disbursing CDBG funds to provide further assurance that funds are distributed Citywide in a manner that is proportionate to community needs in each of geographic region. It is my expectation that the Council and Mayor will adopt a more formalized allocation policy and process for use in the 30th Year CDBG allocation process. We are also working on developing a budgeting calendar that allows for increased and timely public input to the Consolidated Plan process. This also should be implemented in the 30th Year Consolidated Plan process.

Los Angeles Community Development Bank

Let me now address the Los Angeles Community Development Bank. The origin and structure of the Bank have been addressed elsewhere; suffice it for me to address a few outstanding points about its history and its role in the community development efforts by the City of Los Angeles.

The Bank was formed under a different mayor and a substantially different City Council, and less than three years after the Los Angeles civil unrest. At the time, it was created as an autonomous economic development bank that would enlist private capital to augment public investment and supply high-risk loans to struggling entrepreneurs in Los Angeles' inner city. The central innovation of the bank was to bring private banking experience and funding to areas traditionally under-served by conventional banking institutions. Unfortunately, its efforts at committing private capital did not lead to substantial private investment in the Bank's projects, and its operations were not, in the end, in compliance with the express goals of its charter regarding the employment of Empowerment Zone residents and investment in Empowerment Zone projects.

Today, and contrary to the perception of some, the Bank is still operating. Its Transition Plan will take it to the end of the calendar year, with funding available for consulting services to finalize the transition over the following year. The City has begun discussions with HUD on the disposition of the remaining \$196 million in Section 108 funds that were allotted to the Bank. A report to this effect was presented to the City's Economic Development and Employment Committee, which I chair, on Monday, June 23, 2003.

Blight and underemployment are chronic problems that challenge us at all levels of government. The Bank was conceived in a spirit of grappling with these issues, and the City's experience with the Bank has proven instructive, if difficult. While \$50 million of the \$196 million is immediately available for use in the City's ongoing economic and community development programs, we are currently proposing to HUD that the full \$196 million be available within the original target area, but for broader purposes than the original charter of the Bank allowed. We appreciate the Subcommittee's attention to this matter, and we look forward to continuing to fight poverty and eradicate blight in Los Angeles in partnership and solidarity with our friends in Congress.

Thank you for your consideration of these comments. If you would like to discuss any of these points further please feel free to contact me or my staff members Bea Hsu or Josh Kamensky at (213) 473 7013.

Sincerely,

ERIC GARCETTI
Councilmember, 13th District