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Joe Courtney
Congress of the United States
2nd District, Connecticut

November 21, 2008

WASHINGTON OFFICE:

215 CANNON HOUSE OFFICE BUILDING

WASHINGTON, DC 20515

P (202) 225-2076

F (202) 225-4977

DISTRICT OFFICE:

101 WATER STREET, SUITE 301

NORWICH, CT 06360

P (860) 886-0139

F (860) 886-2974

77 HAZARD AVENUE, UNIT J

ENFIELD, CT 06082

P (860) 741-6011

F (860) 741-6036

The Honorable M. Jodi Rell
Governor, State of Connecticut
State Capitol
Hartford, CT 06106

Dear Governor Rell:

I am writing to suggest changes to the DECD proposed allocation of funds for the Neighborhood Stabilization Program (NSP) submitted on November 6, 2008. As I alluded in my November 6 letter, I strongly believe that DECD's method of distribution did not take into account the language of the statute (P.L. 110-289), the intent of Congress, the heavy weight given to foreclosure rates that HUD used in its calculations to distribute money to the states and the historical nature of the CDBG funding. I am troubled that the DECD proposal allocated the \$25 million not based on foreclosure rates, but by the number of foreclosures. Ignoring the proper criteria would leave some of the hardest hit towns in Connecticut -- many of which are in eastern Connecticut -- without any NSP funds. I voted for the Housing Economic and Recovery Act (HERA) in July 2008 because I wanted small and large towns and cities across Connecticut facing high rates of foreclosure and delinquency to receive assistance to revitalize their communities. My concern is based on the following:

First, (P.L. 110-289) intended for the 'rate of foreclosure' to be given priority consideration and specifically states in SEC. 2301 (c) (2):

(2) PRIORITY.—Any State or unit of general local government that receives amounts pursuant to this section shall in distributing such amounts give priority emphasis and consideration to those metropolitan areas, metropolitan cities, urban areas, rural areas, low- and moderate-income areas, and other areas with the greatest need, including those—

(A) with the greatest percentage of home foreclosures;

(B) with the highest percentage of homes financed by a subprime mortgage related loan; and

(C) identified by the State or unit of general local government as likely to face a significant rise in the rate of home foreclosures

Second, after enactment, HUD was tasked with allocating the nearly \$4 billion in NSP funding to the states and heavily weighted a State's foreclosure 'rate' and the State's subprime 'rate' in calculating how the money would be distributed to redevelop abandoned and foreclosed homes. Connecticut received just over \$25 million and all of that was allocated directly to the state. As you know, all states received at least \$19.6 million and then HUD calculated the amount of money to further distribute to states and cities around the country. Connecticut received an additional \$5.4 million in NSP funding but no individual city received a direct allocation because HUD determined that none reached the \$2 million threshold it set. In fact, HUD calculated a pro-rata estimate of funding to the entitlement towns (Chart A-1 in your Draft proposal).

While the HERA statute does not stipulate an allocation of funds based on current CDBG formulas, it is important to remember the underlying CDBG statute's intent to provide funding to entitlement and smaller communities alike. Specifically, it says:

“Of the amount approved in an appropriation Act under section 5303 of this title that remains after allocations pursuant to paragraphs (1) and (2) of subsection (a) of this section, 30 per centum shall be allocated among the States for use in nonentitlement areas”

In your draft proposal, one town reaps 24 percent of all NSP funding allocated to Connecticut. It is important to note that under normal Connecticut CDBG distribution – direct HUD entitlement funds and Small Cities funding – on average, no town receives that much of an allocation. As an example, the towns receiving the most funds in 2008 through CDBG funding -- Bridgeport, Hartford and New Haven -- each received 8 to 9 percent of the total amount of funding. I am troubled that DECD and the State only focused on 7 towns. While I understand that many large cities have high numbers of foreclosures, the foreclosure crisis is hitting rural areas and small towns as well.

For these reasons, I ask that you devise a new formula for distributing the NSP funds throughout Connecticut. I propose that 70 percent of NSP funds be allocated to entitlement communities with priority given to those with the highest foreclosure rates. As I mentioned, HUD heavily weighted the foreclosure rate in allocating funds to the states. In fact, Chart A-1 in your draft proposal shows the HUD rankings of entitlement communities, heavily weighted by foreclosure rates. While HUD did provide a pro-rata estimate of NSP funding to the entitlement communities in Chart A-1, I agree the amounts are too low to have enough of an impact on their neighborhoods. Therefore, I propose that the HUD pro-rata estimate be augmented in some way. In this manner, more cities could receive some NSP funding. Such a formula also complements support for the seven towns in your original draft.

I propose that the remaining 30 percent of the funds be allocated directly to the nonentitlement communities with the highest HUD estimated foreclosure abandonment risk score or the highest average of predicted 18 month foreclosure rate, thus keeping with the intent of the underlying HERA statute. These statistics have been compiled by HUD, and would serve as a fair data set to determine which small towns are most in need.

Towns must expend many resources to complete a local action plan to the State within 35 days or January 7, 2009, whichever is later. By statute, the State must submit its action plan to HUD by December 1, 2008. HUD will review the state plan within 45 days. Therefore, local action plans are due to the State before HUD may have even approved the state plan. I propose that local action plans be due two weeks after HUD approves the State's plan for completeness and consistency.

Finally I want to note that recent press reports that mention a \$2.1 million set aside for small towns and in some accounts, “for eastern Connecticut”, are not consistent with the State draft plan. After careful reading of the State NSP plan, nowhere is there mention of that proposal. In fact, on page 8 of the Draft Proposal, it specifically states:

“The State has held back \$2,100,000 in NSP funds (\$2,000,000 in grant funds and \$100,000 for general administrative and technical assistance costs) to provide an incentive to the seven (7) subrecipients based on their performance.”

Although the press reports would appear to signal a willingness by DECD to modify the draft plan, by itself, it is an insufficient amount for the number of small towns that are enduring devastating economic hardships due to high delinquency and foreclosure rates. A more equitable solution is warranted.

I was pleased to vote for the comprehensive Housing Economic and Recovery Act in July 2008, but I did so with the understanding that small towns and large cities would all receive economic relief and put themselves on the path to neighborhood revitalization.

Sincerely,



JOE COURTNEY
Member of Congress